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Blog Archive

- ▼ 2007 (50)
  - ▼ April (2)
    - So-called "Foreclosure Rescue" And Equity-Skimming...
    - Delinquencies On Home Equity Loans Rose By 7 Perce...
  - ► March (39)
  - ► February (9)

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MONDAY, APRIL 2, 2007

So-called "Foreclosure Rescue" And Equity-Skimming Scams On The Increase

TONY PUGH;

McClatchy Newspapers

As interest rates rise, many people with adjustable-rate mortgages find their payments too high to manage. That has paved the way for con artists offering relief. WASHINGTON – As home foreclosures increase across the country, scam artists promise struggling homeowners a quick bailout, but they end up stripping the properties of their value or owning the homes outright.

So-called "foreclosure rescue" and equity-skimming scams have been around for years, but they've proliferated over the last five years as the U.S. housing boom took off, experts said. Now, as the market cools, tens of thousands of homeowners with shaky credit are reeling after interest on their subprime adjustable-rate mortgages increased, requiring higher payments. Many are turning to foreclosures, giving con artists an even larger audience.

State officials urge cash-strapped property owners – particularly the elderly, immigrants, minorities and low-income – to be wary of mailings, phone calls and visitors offering to help "save your home" and "avoid foreclosure."

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The Washington State Attorney General's Office recently settled a suit against three businesses that claimed to save the homes of people who were facing foreclosure for unpaid property taxes. The companies – Fiscal Dynamics Inc. and Cumulative LLC, of Tacoma, and Northwest Assets of Seattle – allegedly broke promises to pay the back taxes and instead tried to sell the houses at auction and keep the owners' rightful proceeds, according to the complaint.

The state claims that the companies inundated homeowners with paperwork, including some documents that gave the companies power of attorney and others that allowed them to keep excess proceeds from the auction sales. Company officials admitted no wrongdoing but agreed to pay a total of $290,000 in restitution to possibly more than 100 homeowners, state officials said.

The settlement consent decree said company officials had denied the allegations and had agreed to the settlement to "avoid costly and protracted litigation."

More than 1.6 million foreclosures are expected to be filed this year, up 33 percent from 2006, according to RealtyTrac, an Internet listing of foreclosed properties.

"These offers of help and money may seem like a godsend, but it is the con artist who ultimately benefits," New Jersey Attorney General Stuart Rabner said recently. "Homeowners facing the loss of their homes are understandably concerned, and con artists seize on their fears to perpetrate scams."

Some of the worst offenders are found on billboards and roadside signs that proclaim, "we buy houses," "cash for houses" and "refinance your home."

"I personally take down those signs every day," said William Kostrzewski, an assistant state attorney in Miami-Dade County, Fla., who prosecutes foreclosure scams and other economic crimes. "If there's no sign, there's no victim, there's no investigation, there's no money lost and there's no prosecution. I like it that way."

Kostrzewski said many scam artists learned their techniques, in part, from real estate seminars such as those advertised on late-night television. Participants are taught to peruse county records to find properties that face foreclosure for nonpayment of mortgages or taxes. Real estate agents or loan originators then approach the owners of properties that are worth more than the outstanding debts, offering to help them avoid foreclosure.

Typically, the homeowners are referred to investors who offer to pay the back taxes or delinquent mortgages, buy the properties and lease them to the original owners for a year or so until they're financially sound. At that time, the new owners promise, the properties will be sold back to the original owners. But the contracts are full of provisions, hidden penalties and other stipulations that make it nearly impossible for the owners to regain their properties.

When they try, they usually find that their equity has been depleted, leaving them with no collateral to get refinanced loans to repurchase the homes. The contracts often call for a lump-sum payment of the mortgage balance. When the original homeowners can't make those payments, they're evicted and the properties are sold, providing a handsome profit for the new owners, who paid only a small fraction of the homes' market values.

In Bellevue, Vila Pace-Knapp was coming off a divorce and had lost her job because of frequent absences to care for her sick son when she fell behind on her mortgage in 2002.

Her father could have loaned her the money, but she was too embarrassed to ask for help. So when Dick Pelascini and Thomas Boboth called her time and again, offering to save her home, Pace-Knapp gave in. She said she ultimately was persuaded to sign documents that transferred title of her property while allowing her to remain there and pay rent for several years.

As she signed, Pace-Knapp got a funny feeling. "I was becoming aware

that during the whole time, Dick hadn't looked me in the eye," she said.
After two years, the contract allowed her to buy back the property. But the rent was $1,400 and her monthly income was $1,600.
"The whole thing was set up to fail, because they knew she couldn't pay $1,400 a month, which is what they're counting on so that they could get her out within the first couple of months, so they could keep all of the equity in the home," said Pace-Knapp's attorney, Melissa Huelsman of Seattle, who sued to get the home back.
"They were just waiting until I wore myself out because they wanted to take my house. They didn't care if I lived or died. I knew they would evict me," Pace-Knapp said. She was right. She was evicted in 2004.
At trial last year, Boboth, Pelascini and Pelascini's wife, Cecelia, were found to have committed fraud and violated the state consumer-protection act by engaging in unfair or deceptive business practices. They were ordered to transfer title of the home back to Pace-Knapp, reimburse her for the estimated $35,000 she paid in rent and pay her the rent that other tenants had paid on the property since she'd been evicted.
The case is under appeal. Pace-Knapp is living with relatives until the matter is resolved.
Bernard Lanz, the attorney for the Pelascinis and Boboth, wouldn't comment about the case while the appeal is pending. He did say that he thought the accusations had never been proved and the judge's orders for restitution had no basis in law. "The bottom line is my clients didn't do anything wrong," Lanz said.
Richard Hagar, a Seattle real estate appraiser who trains law enforcement, banking and mortgage professionals to spot foreclosure scams, said the problem would worsen before it improved. An estimated 2.2 million homeowners with subprime loans could face foreclosure over the next five years, according to The Center for American Progress, a research organization in Washington, D.C..
"I believe you are going to see an absolute skyrocketing of these scams over the next three years. My guess is a tenfold increase," Hagar said.
What to do if you're facing foreclosure
STEPS TO TAKE
Contact your mortgage company first to see if a new payment plan can be worked out or the loan can be refinanced. If that doesn't work, consider selling the house or contact a credible housing counselor.
• Find housing counselors approved by the Department of Housing and Urban Development at www.hud.gov or by calling HUD's interactive voice-response system at 1-800-569-4287.
• ACORN Housing offers a Home Equity Loss Prevention program with counselors who can intervene to help homeowners who face foreclosures. Call toll-free 888-409-3557 or e-mail help@acornhousing.org.
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Stay away from ads, mailings, billboards and people offering to help you save your home at terms that sound too good to be true. Be leery of people who offer help but discourage you from contacting your mortgage company or attorney.
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• Your state attorney general's office also can conduct a criminal investigation. In Washington, go to www.atg.wa.gov.
• Private attorneys can file civil suits against suspected scam artists. The National Association of Consumer Advocates lists lawyers in each state who specialize in consumer-fraud cases. They can be reached at www.naca.net.
• Legal Services offices can assist those who can't afford lawyers. For a list of state offices, go to www.lsc.gov.

Posted by Levetha A at 4:14 AM 0 comments

Labels: Foreclosure , Loans

Delinquencies On Home Equity Loans Rose By 7 Percent

The rate of delinquencies on home equity loans rose about 7 percent in the fourth quarter from the third quarter in the latest sign of cracks in the credit business attached to real estate and consumer borrowing in general.
"It's not a surprise to see some increase in home equity loan delinquencies, given the weaknesses in the housing market," said James Chessen, chief economist of the American Bankers Association.
But the rise in delinquencies will undoubtedly cause further concern for market watchers who worry that weakening consumer debt trends could cause problems for the broader economy.
The mortgage market underwent a sea change in the 1980s when banks rather than holding the loans on their own balance sheets started selling mortgages to other institutions, which then pooled them and sold off slices to investors, a process called securitization.
That began the trend of building so-called asset-backed securities, which now include everything from home equity loans to car loans. Everyone from mutual funds to pension funds to individual investors now owns that risk, and defaults, should they continue to rise, would ripple through the economy.
"Looking at the whole profile of consumer finances, American consumers are, by and large, managing debt well," Chessen said. "We are cautiously optimistic that the spillover will be small, given continued job growth and a still strong economy."
The overall rate of delinquencies among all eight loan categories tracked by the American Bankers Association Consumer Credit Delinquency Bulletin crept up to 2.23 percent in the fourth quarter from 2.12 percent, staying close to the 10-year average rate of 2.20 percent.
Chessen's remarks echoed statements Wednesday by Fed Chairman Ben Bernanke, who said weakness in the subprime mortgage business remains contained to that sector.
But Punk Ziegel analyst Dick Bove waxed less sanguine on the broader issue earlier this week. The level of consumer debt in the country is growing faster than GDP. He said over the last decade, nominal GDP has grown at a 5.1 percent rate while credit market debt outstanding grew 8.4 percent.
"Therein lies the problem," Bove said. "The economy must generate the increased incomes to pay the interest on this debt. The economy is not generating the incomes necessary to pay the interest on the debt. If the long-term rate were to rise further or incomes grow at slower rates then it seems highly likely that there would be a rash of defaults throughout the economy," he concluded.
Breaking down the rest of the consumer credit market, late payments on credit cards were 4.56 percent of accounts in the fourth quarter, compared to 4.57 percent in the third quarter (seasonally adjusted), according to the ABA.
Indirect auto loan delinquencies increased to 2.57 percent from 2.35 percent and direct auto loan delinquencies decreased to 1.85 percent from 1.87 percent. Personal loan delinquencies remained at 1.91 percent

Posted by Levetha A at 4:00 AM 0 comments
Labels: Home Equity Loans

FRIDAY, MARCH 30, 2007

Risk Losing Homes Refinancing Rising Costs

As the subprime home financing fiasco continues to unravel, one of its most frayed threads is coming to light, according to three new studies:

Many longtime homeowners have put their houses in jeopardy by refinancing with high-interest loans.
"The way things are looking is that things will be getting worse, not better, for some time," said John Pawasarat, director of the University of Wisconsin-Milwaukee Employment and Training Institute.
In Milwaukee County, 25.7% of all home refinance loans in 2005 were subprime loans, according to the institute. Those typically easy-to-get, high-cost loans accounted for 37.5% of the refinanced homes in Milwaukee central city neighborhoods.
In a separate analysis released this week, the Center for Responsible Lending, a national housing advocacy non-profit, said that 91% of subprime loans made nationwide since 1998 have refinanced existing mortgages.
And the American Bankers Association said Thursday that delinquencies on home-equity loans rose to 1.92% in the fourth quarter, up from 1.79% in the third quarter - yet another indication of the rising pressure on some homeowners.
The escalating credit crunch is beginning to reverberate through other parts of the housing economy.
Milwaukee remodeler Joe Tillmann was caught two weeks ago as lenders quickly raised their standards: a $60,000 kitchen and basement project fell through when his client, a suburban homeowner, was denied a home-equity loan.
High-pressure tacticsLongtime homeowners went for subprimes because they believed they would be able to roll all their debt into lower monthly payments, maybe even with a little cash to spare, said Trena Bond, executive director of Housing Resources Inc., a Milwaukee home purchase counseling agency.
High-pressure marketing tactics pulled in even homeowners with solid credit ratings and plenty of home equity, who didn't compare the subprime deals with those they might have gotten from traditional banks.
"There were people with good, decent credit who were steered into subprime loans because the broker is not obligated to send you to a standard lender," said Brenda Muniz, national legislative director for ACORN, a national housing and social advocacy group. "The systems aren't in place to steer you to a prime loan if you have prime credit."
Now, some borrowers are discovering that rising interest rates and stagnant home values are threatening their ability to hold onto their houses and the scraps of equity that remain.
"The types of calls we are getting for the post-purchase program are from people who are too far behind for us to help them," Bond said.
The Center for Responsible Lending predicts that 20.4% of all subprime loans made in the Milwaukee area in 2006 will end up in foreclosure; across the state, 19.6% of those loans could eventually fail.
Already, rising interest rates on adjustable home equity and refinance loans are absorbing money that some homeowners had hoped to spend on improvements. Their pain is spreading to contractors and real estate brokers.
Shorewest real estate broker Ian Francis said he just turned down a listing from a homeowner who had a $147,000 refinance loan on a house that is likely worth $110,000.
"There was no point to taking the listing," he said.
Brokers in the New Berlin Shorewest office, where he works, are seeing as many as six listings a week from owners trying to avoid foreclosure or selling for less than the amount of their home loans. A year ago, such situations never came up.
Most of the houses have market values of $150,000 to $200,000, said Francis, but it's not unusual to see homes worth up to $600,000 in similar straits. The homes are throughout the Milwaukee metro area, reflecting UWM's analysis, which found that subprimes were 16.8% of all suburban refinance loans in 2005.
Tillmann hung his out his shingle as J&H Remodeling LLC just this

month with hopes of pulling in moderately priced projects from homeowners who were cautiously optimistic about home values. All he wanted was enough work to support his homeownership goals.
"Originally I was happy to see that the market was slow because I thought I'd buy a house, but I can't," he said. "People aren't able to get financing, and the work has been so slow for me that I can't buy my own place till things pick up."

Posted by Levetha A at 12:40 PM 0 comments
Labels: Home Equity Loans , Home Refinancing , Refinancing Loan

Predatory Lending ... Is Becoming A Bigger Problem

A mortgage-lending bill passed unanimously by state delegates last week and expected to come before the Senate today is being decried by fair-lending advocates, who fear homeowners would be hurt by the proposed increase in fees that brokers could charge for certain refinancing loans.
Mortgage brokers, who link customers with lenders, account for nearly 70 percent of the home-loan business. They charge finder's fees that are a percentage of a loan's value, up to a state maximum of 8 percent.
State law further limits the fee a broker can charge in the refinancing of a loan within two years of handling the last mortgage on the same property. Rather than charging a percentage of the entire refinanced value, the broker is entitled to fees only on the difference between the new value and the original one.
The bill would allow brokers to base the refinancing fee on the full value.
Industry leaders say it's not much of a change because brokers and mortgage lenders who didn't handle the first loan can already charge the full fee. But the national Center for Responsible Lending calls the bill a weakening of consumer protections. Ardie Hollifield, the group's legislative associate, thinks it's a bizarre move at a time when foreclosures are rising and legislators elsewhere are scrambling to pass more restrictive lending laws.
With higher fees allowed, "All the economic incentive is to place the person in an inappropriate loan, multiple times, until they lose the house," said Phillip R. Robinson, an attorney who is executive director of Civil Justice Inc., a Baltimore nonprofit that specializes in legal help for low- and moderate-income residents. "Meanwhile, the broker makes a lot of money."
A homeowner going back to the same broker within two years to refinance into a $120,000 loan from a $100,000 loan could be charged a maximum of $1,600 in broker fees currently, he said. If the law is changed, the maximum would rise to $9,600.
Backer's argumentThomas C. Shaner, executive director of the Maryland Association of Mortgage Brokers, which sought the change, argues that the bill simply lets consumers return to the brokers with whom they've established rapport if they want to refinance within two years.
He said there's no economic incentive for a broker to take that business now, particularly if there's little new equity. Most brokers are charging fees that are much lower than the 8 percent maximum, he said.
He contends that the current law is more likely to cause problems than the proposed change.
"All you're doing is creating a place where another broker who the consumer has no trust in can come and be over-aggressive, and the consumer is not checking back with his or her original broker to see if this is the right decision," said Shaner.
Sponsor's viewState Del. Brian J. Feldman, a Montgomery County Democrat who was the lead sponsor of the bill, said he ran it past the attorney general's office, which did not oppose it. He sees it as a "level playing field" sort of change because he was told that lenders - the institutions putting up the money - don't have similar restrictions on

refinancing fees.
"I'm not sure there's any policy reason why [the state should] treat the licensed lenders any differently than licensed mortgage brokers in a refi transaction," he said.
Robinson, of Civil Justice, said the state does restrict how often lenders can refinance the same loan.
He also believes that a stipulation in the bill meant to protect homeowners in trouble is toothless.
The proposal says that brokers can't charge the "same borrower" fees on the entire value of the refinanced loan if that borrower is behind in payments on the original mortgage, but brokers could get around that whenever they're dealing with couples, he said.
One name could go on the first loan, both names on the second, and so forth, he said. The current law refers to the "same property."
Raquel Guillory, a spokeswoman for the Maryland attorney general, said the office took no position on the bill because Attorney General Douglas F. Gansler intends to take a "comprehensive look at the entire industry."
"Predatory lending ... is becoming a bigger problem," she said.

Posted by Levetha A at 12:20 PM 0 comments
Labels: Home Refinancing , Homeowners , Mortgage Brokers , Refinancing Loan

Look Before You Leap Into Bond Investments

Gov. John Baldacci has proposed that the state issue almost $400 million of new state bonds, in order to finance expenditures in four areas: transportation ($131 million), research and development ($131 million), conservation and the environment ($97.4 million), and Maine's state institutions of higher education ($33 million). Bonds are to the states more or less like home equity loans are to individuals -- tools for raising large amounts of money all at once, in exchange for a promise to repay the outstanding balance over a period of years at an attractive interest rate. Home equity loans can be useful to homeowners because they can finance such major expenditures as a new roof or heating system, or a college education. But such loans are also risky because there are serious consequences for failing to repay. That is why prudent homeowners don't take out home equity loans to pay for big-screen televisions or for vacations to Hawaii.
A homeowner considering a home equity loan, therefore, needs to ask two questions: whether he can make the payments and whether the proposed expenditure will produce lasting benefits that justify the long-term borrowing. Unless the answer to both questions is "yes", he should say no to the loan.
State legislators and citizens considering state bond packages should ask the same two questions: whether the state can make the payments on any new bonds it issues, and whether the proposed expenditures are more akin to a new roof or college education than to a two-week trip to Hawaii.
Happily, the answer to the first question is yes. The state's credit is good, interest rates are low, and the state is now carrying less bonded debt relative to population and income than the median state. Were the state to issue even $500 million in new bonds, the interest payments on state bonds would amount to only 5 percent of the state budget, which is less than the percentage of the federal budget spent on interest payments (about 9 percent this year), and much less as a percentage of income than most of us personally spend to repay our long-term debts.
That one can afford a loan, however, is not a reason to borrow. Hence the importance of the second question, about the long-term benefits of the expenditures we hope to finance. Will the governor's proposals bring lasting value, or are they the equivalent of a new flat-screen TV, flashy and fun, but frivolous?
The transportation bond is the most necessary of the four. The state's

roads and bridges are in notoriously poor shape, and by all accounts, even the governor's proposed $131 million investment would only begin to cover the full cost of bringing these essential elements of our transportation infrastructure back up to par. Just as a house with a leaky roof eventually becomes uninhabitable, a state with damaged roads and dangerous bridges eventually becomes unliveable. Without an adequate transportation network, we cannot hope to realize the long-term economic gains the other bond proposals seek to deliver.

The higher education bond is an appropriate and desirable investment in Maine's future economic growth, second in importance only to the transportation bond. The economic returns to higher education are well documented, and if we want the next generation of Mainers to have highly paid jobs requiring advanced skills, we will need to make sure that they have the opportunity to get the necessary education and training.

Likewise, the bond to fund research and development is a worthwhile investment designed to promote future economic growth. The Governor's Council on Jobs, Innovation and the Economy produced an impressive report, setting out a detailed plan for awarding grants (based on merit as assessed by experts) to Maine-based educational institutions, firms and non-profits, in order to encourage economic growth and job creation.

The proposed spending on conservation and the environment is the most difficult to assess. Spending on such essential public infrastructure as water and sewage treatment plants should be classed with expenditures to make up for deferred maintenance on our roads and bridges. In contrast, spending to protect open spaces and to acquire public land may be desirable but should not be allowed to crowd out more urgent needs.

Given the state of Maine's economy and the weight of its tax burden, we should invest in the necessary infrastructure -- both the physical structures and the human, intellectual capital -- needed to encourage economic growth. More growth means more resources and better options for the future, and maybe even a few flat-screen TVs.

Joseph R. Reisert is associate professor of American Constitutional Law and chairman of the Department of Government at Colby College in Waterville.

Posted by Levetha A at 12:03 PM 0 comments
Labels: Bond Investment , Loans

Good Credit Borrowers Not Spared By Subprime Florida Mortgage Market

The meltdown in the bad credit Florida mortgage market is making it tough for many potential home buyers to find financing. It's a given that buyers with damaged or thin credit histories may be shut out.

But what about people with the best credit? Will the problems in subprime have any impact on how costly or easy it is to get mortgages for so-called prime borrowers?

Jay Brinkmann, economist for the Mortgage Bankers Association, says subprime problems may "bleed over" into prime.

As evidence of this he cites "a general increase in credit spreads across the board." When the supply of money for loans falls, credit spreads - the difference between what lenders pay in interest versus what they get from borrowers - tend to rise, making all Florida home loans more expensive, including prime.

What a difference a year makes.

In 2004, 2005 and through early 2006, the South Florida housing market was still hot and home loans of all kinds were easy to come by. Investors were pumping money into the mortgage markets and were willing to buy riskier loans in return for high yields; sometimes, it now seems clear, the risks were over the top.

“Investors signaled that they willing to buy some stupid loans, so mortgage brokers went out and wrote some stupid loans,” says Randy Johnson, president of Independence Mortgage Co. and author of “How to Save Thousands of Dollars on your Mortgage.”
For years, gains of 10 percent or more in home prices had insulated lenders from their mistakes; owners could keep up payments by tapping their growing home equity. Or they could sell at a profit.
That changed when price appreciation finally slowed to more normal levels. And now, banks have become much more cautious, and much more likely to turn down borrowers with marginal credit scores.
Plus, the subprime lending industry itself is undergoing a shake-out with many lenders exiting the scene. Because of stiff losses from non-performing loans, more than 20 have either already closed their doors or are scrambling to find added financial backing. Fewer industry players will also dry up some liquidity.
Fewer apply for mortgagesMeanwhile, late last month Freddie Mac announced more restrictive standards for subprime mortgages. It will no longer buy hybrid adjustable-rate loans that will have a high likelihood of failure when their rates reset at much higher rates later. This is likely to further restrict the source of funds for subprime loans.
And others are following Freddie Mac’s lead by scrutinizing applicants more carefully.
At a Senate Banking Committee hearing last Thursday, Laurent Bossard, CEO of WMC Mortgage, said his company has made many improvements over the past 12 months to reduce subprime loan risk, including restricting subprime hybrid ARM loans to those borrowers the bank judges are able to make payments based on higher reset rates rather than the initial low “teaser” rates.
Other lenders, such as Countrywide Financial and First Franklin, have also pledged to maintain high underwriting standards.
All these factors will make it much harder for borrowers with damaged or thin credit scores to qualify for loans. For prime borrowers, the picture is less clear, though most likely few will have trouble finding a loan. But will the terms be as favorable?
Rates fallAccording to Patrick Newport, an economist with Global Insight, a provider of financial news coverage and analysis, the subprime crisis has had little negative impact on prime markets.
“If you look at the 30-year fixed [Florida mortgages], rates have been dropping,” he said. “I’m surprised that the 30-year rates have not edged up and it’s probably because subprime problems don’t affect most borrowers.”
Some think the effect on prime could even be positive.
“The fall-off in subprime originations could add to the liquidity of prime markets,” said Keith Gumbinger of financial publisher HSH Associates, which tracks the mortgage industry.
The banks and other investors who were big buyers of mortgage-backed securities may be more likely to look for higher-quality investments now; in other words, securities backed by prime lending, increasing the stream of dollars going there.
“[Prime borrowers] could enjoy a little bit more attention now with even more lenders competing for their business,” says Gumbinger. “The drive into prime could compress profit margins and lead to better rates and lower fees. It could also mean higher levels of service.”

Posted by Levetha A at 11:57 AM 0 comments
Labels: Mortgage , Subprime Mortgage Holders

Do Not Underestimate Home equity loans

She was nice as could be. As I handed over my paycheck and a deposit slip, the bank teller smiled and asked, “Are you a homeowner?”
The correct answer would be that I’m getting there. I shortened it to “I am.”

Next came the question of whether I have a home equity line of credit. Nope, no ready access to the chunk of my home's value that I actually do own.

All smiles, she said the bank was offering a good deal to homeowners like me. I don't need that equity money now, I said. Her pitch persisted with a suggestion that I should "open one now, before you need it."

These days, enticements to borrow are as close as a credit card offer in your mailbox. Is anyone putting the brakes on folks who would borrow too freely? From what I see, it's up to us to put the brakes on ourselves.

In Congress on Tuesday, the House Committee on Financial Services heard cautionary words from Sheila Bair, chairwoman of the Federal Deposit Insurance Corp. Bair told lawmakers that curbs are needed on so-called subprime mortgages, in which people with questionable credit are wooed by affordable rates. Typically, payments later rise beyond borrowers' ability to pay.

Sure, I know that a home equity line of credit offered by my bank - which happens to be Bank of America, the country's largest consumer bank - is a far cry from a risky subprime loan.

Still, it makes me nervous to think I could potentially take thousands of dollars in equity from my house, spend it on a cool new kitchen or a trip around the world, and be left with years of payments.

It should make me nervous. At 53, I'm just a decade from at least considering retirement. How much debt do I want the day I stop working?

"It's certainly true that customers need to be responsible for their own finances and credit," said Peggy Lawlor, senior vice president of home equity loans for Bank of America. "A home equity line of credit is not for everyone."

Speaking from Rhode Island, Lawlor said Thursday the bank looks carefully not just at equity, but at income. Not every homeowner qualifies. "We'll approve about 70 percent of the home equity applications we're taking this year," she said.

Among Bank of America customers, she said, most take out a home equity line of credit for home improvements. "The number two use is debt consolidation," Lawlor said.

Paying off credit cards with lower-interest loans can be prudent, but only if borrowers mend their freewheeling ways. That's the counsel from Alec Williamson, a certified financial planner with StanCorp Investment Advisers in Lynnwood.

"If you can lower your interest significantly, and have the discipline, it works," Williamson said. "What is your pattern? The scary thing that happens with alarming frequency is, you get out of high interest credit card debt. A year later, you've got the home equity line and new credit card balances."

Williamson cautions against using your home for what he calls short-term assets, like cars. "It's a snowball, it just keeps rolling," he said.

Thinking of fiscal snowballs I'd like to avoid, I can't help but remember my dear Uncle Fred, my father's older brother.

Born in 1913, Frederick Ahrens got a job during the Depression as a messenger for the Spokane and Eastern Branch of Seattle-First National Bank.

The bank became Seafirst in the 1970s, and then Bank of America in the 1990s.

"He was a vice president at the bank," my father said of his late brother on Thursday. "He did mortgages."

Posted by Levetha A at 11:50 AM 0 comments
Labels: Home Equity Loans , Homeowners , Lower-Interest loans

Losing Homes To Foreclosures

A few years ago, I was visiting with the top dog at one of the country's largest mortgage companies.

I remember that I questioned him about the surge in home lending to people with bad or no credit and marginal income levels – folks who traditionally wouldn't qualify for a mortgage.
I said that based on what I saw in the late 1980s crash in Texas, many of those buyers with little or no equity would walk away from their houses the first time a cloud passed over their financial horizon.
Sure enough, the mortgage company CEO agreed.
But he insisted it would be worth the industry suffering those foreclosures if it meant millions of people could own a home who otherwise wouldn't be able.
As it turns out, what we both predicted has come true.
U.S. homeownership rates have soared to record levels, due in part to loose lending standards that made it easier for renters to buy a house.
But more than 2 million homeowners who financed their homes with subprime home loans are now expected to lose them to foreclosure.
"What's gone on here is a social experiment – we have raised home ownership rates," said Jim Gaines, an economist with Texas A&M University's Real Estate Center.
But now that the American dream of homeownership is turning into a financial nightmare for some, who's going to pay the tab?
Mortgage lenders are already tightening the screws on many borrowers who try to finance a home this spring, in reaction to the flood of loan defaults.
So if you're buying a house, you may not qualify for as big a loan as you would have last spring.
You'll probably need more up-front money, too.
Investors who bought mortgage-backed securities will also feel the bite when some of those loans go bad.
Closer to home, the house you live in may lose some of its value if others on the block are sold at foreclosure auction or if lenders make it harder for potential buyers to finance a purchase in the neighborhood.
Certainly that would make it tougher for you to sell if you need to relocate or cash out of your house.

Posted by Levetha A at 11:50 AM 0 comments
Labels: Foreclosure , Home Equity Loans , Mortage Lenders

Houses Still Overvalued Despite Price Drop

Prices of homes in many red-hot regions — California, South Florida and the New York metropolitan area — cooled in the final three months of 2006.
But 16 percent of the nation's single-family homes remained overvalued. That's slightly down from 17 percent in the previous quarter, according to research by Global Insight and National City.
The analysis used local household income, population density and historical prices to assign a fair value for the median home in each of 317 metropolitan areas, representing nearly 90 percent of home values nationwide.
The data showed the Seattle market being moderately overvalued by 31.7 percent, compared with 29.8 percent in the previous quarter.
The report suggested caution for homebuyers in parts of California, the Northwest, Arizona and Florida.
"Any market we identify as being overvalued is, at a minimum, at risk of a price decline," says Richard DeKaser, chief economist of National City. "So if you've got flexibility and you don't particularly feel that time is urgent right now, maybe it makes sense to wait." The report found attractive values in parts of Texas, Mississippi and Oklahoma.
The retreat in prices in the most overvalued markets is a good sign for housing, says economist Jeannine Cataldi of Global Insight. "Prices are coming down slowly, with no precipitous drops," she says

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Posted by Levetha A at 11:40 AM 0 comments

Labels: Home Equity Loans , Home Refinancing , Home Value

TUESDAY, MARCH 27, 2007

A Ray Of Hope For Subprime Mortgage Holders

A growing number of state housing agencies are developing or considering issuing bonds to assist subprime mortgage holders to refinance their obligations at fixed rates, officials at housing agencies said on Tuesday.
The Ohio Housing Finance Agency intends to issue $100 million in taxable bonds on April 2 to refinance about 1,000 loans averaging $100,000 each, held by homeowners with poor credit histories, with a fixed rate of around 6.75 percent, an official with the body said.
Ohio's agency was inspired by another state body which implemented a similar refinancing package in recent months.
"Maryland has had a similar refinancing program for subprime mortgages for the last few months," said Garth Rieman, director of housing advocacy at the National Council of State Housing Agencies.
Officials at Maryland's Department of Housing and Community Development were not immediately available for comment.
In recent weeks, financial markets have been shaken by increasing delinquencies among subprime mortgages offered to borrowers with damaged credit. This has triggered concerns that the fallout may spread to mainstream lenders and damage the U.S. economy.
Rhode Island, Massachusetts and Virginia are now "running or developing similar programs and are further along than other states," Rieman added.
Colorado, California, Washington and Wisconsin, meanwhile, have been inquiring about the details of such refinancing programs, Rieman said.
Indiana, meanwhile, is about to open a hotline to help homeowners facing foreclosure and is offering referrals to advisors who are able to assist with loss mitigation, while the state legislature is considering a bill that includes a public awareness campaign.
"We are not currently offering such a (refinancing) program," Indiana Housing and Community Development Authority spokeswoman Amber Seidler said.
"Tax exempt bonds are, pursuant to the IRS (U.S. Internal Revenue Service) Code, limited to being used to fund new mortgages, not refinancings," she added."A couple of other states have set up pilot programs utilizing taxable bonds to target subprime borrowers, but they are very new and we have not reached that stage of having a program ready to offer," Seidler said.

Posted by Levetha A at 1:31 PM 0 comments
Labels: Mortgage , Subprime Mortgage Holders

FRIDAY, MARCH 16, 2007

When Loan Refinancing Options Are Few

Someone in my office is working with a client facing foreclosure. The trustee sale already has been scheduled and the amount due on the note has started to appear several places on the Internet. Given the time the title company will need to get payoff information and complete an escrow, the owners only have a few weeks left to sell the property themselves.
It has been an uphill battle for this agent, but he knew this going into the situation. Still, he managed to receive a couple of offers on the property. They’re not what the sellers are asking, but they would allow the sellers to walk away with some cash in their pocket.
The problem is, the agent and sellers can’t connect. The sellers already have canceled two different appointments to meet and go over the

offers. One of the sellers is discussing the possibility of refinancing their loan. That's not a typo. He hopes to find a lender who will help them refinance the current loan they haven't paid. I'm not sure where such a lender actually exists.
In the worst of times, it's not uncommon for people to cling to whatever hope they can. But it's more than problematic when that hope blinds someone to the realities of the challenges they face. And a trustee's sale isn't the type of problem that will go away if you ignore it long enough.
The agent remains hopeful of finding some sort of solution that keeps the property from being sold on the courthouse steps. But time is running out. And the sellers don't seem to want to help him help them.
Bad times all around.

Posted by Levetha A at 9:21 PM 0 comments
Labels: Mortgage Loan , Refinancing

Mortgage Refinancing For A listed Home

If your home is currently listed, or was previously listed in the last six months you may experience trouble refinancing your mortgage. Many banks and lenders shy away from offering financing to borrowers who were unable to sell their home on the open market. It really makes perfect sense. Why would a bank or lender want to finance your home at a certain value if no one is willing to buy it at that price in the real world?
Before you list your home, plan for the worst. Make sure you have enough cash reserves to pay your mortgage each month in the case that your home doesn't sell. After all, you may be stuck with an unsold home and an adjustable-rate mortgage that's due to rise.
If you do hit dire straits, there's likely a lender out there willing to refinance your current loan, but it will likely be at a premium. If you must refinance, ask your bank, lender, or broker to grant an exception to get the deal done.

Posted by Levetha A at 9:16 PM 0 comments
Labels: Mortgage , Mortgage Refinance

E-Process Cost More For Tax Firms

U.S. companies required to e-file are spending more time and money on compliance than before the electronic process was made mandatory, a new survey conducted by Deloitte Tax LLP (Deloitte Tax) has found.
The report discusses the experiences of corporations in the first year of the Internal Revenue Service's mandate to e-file federal tax returns.
A majority of those surveyed said the time they spent on compliance (61 percent) and the costs (68 percent) in filing their 2005 federal tax returns had increased by as much as 19 percent.
Recent changes in e-file transition rules and the expansion of the e-file mandate make planning for e-filing an important aspect of compliance planning for tax year 2006:
* About 70 percent of executives reported their company had engaged in some form of planning to prepare for the mandate, according to the survey; * Sixty-five percent also believe e-filing will increase the efficiency in filing returns, and 57 percent said it should lead to earlier filing of tax returns; * Only 20 percent expected the benefits from e-filing would outweigh the costs within five years.
The findings were based on a survey of 312 senior corporate tax executives. Most respondents were from companies with reported annual revenues of $1 billion or more, and they held senior positions within their companies, such as the head of their corporate tax function.
They spoke both of their experiences preparing and filing the 2005 federal returns electronically and how the IRS mandate might affect their companies. The mandate requires certain large corporations and

tax-exempt organizations to e-file Form 1120, Form 1120S, or Form 990 for tax periods ending on or after December 31, 2005, using the new Internal Revenue Service (IRS) Modernized e-File (MeF) system.
"Clearly, the e-filing mandate had some challenges in its first year, but knowing that the mandate applies to your company, and taking some preparatory steps, can help avoid potential stumbling blocks," said Nathan Andrews, the national tax partner leading Deloitte Tax's e-Filing Project Management Office. "With year one behind us, corporate filers, tax preparers, software providers and the IRS continue to work together to improve e-filing compliance."
Ninety-two percent of executives surveyed said their company had not changed their primary tax software because of the e-file requirement, and 87 percent said they used the same tax software for filing both international and domestic forms. Additionally, 66 percent of executives surveyed said they were satisfied with the ability of their primary tax software to handle e-filing (rated 4 or 5 on a 5-point scale).

Posted by Levetha A at 1:51 PM 0 comments
Labels: Internal Revenue Service

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Posted by Levetha A at 1:51 PM 0 comments
Labels: Internal Revenue Service

WEDNESDAY, MARCH 14, 2007

U.S. Mortgage Applications On The Rise Again

U.S. mortgage applications rose last week, with both new purchases and refinancings driven up by the lowest long-term home loan interest rates since early December, an industry trade group said Wednesday.
The crisis in the subprime mortgage market, where at least two dozen companies have closed shop amid rising defaults by borrowers with weak credit, could, perversely, help keep this momentum going, some economists said.
AdvertisementInvestors seeking shelter from the subprime turmoil this week rushed into Treasuries, which are a peg for home loan rates. Mortgage rates should slide as a result, stimulating demand for new house purchases and refinancing, they said.
"You might have some issues on the subprime side, as you would expect, because lenders are blowing up and there could be a general tightening of credit on that side," said Ajay Rajadhyaksha, co-head of fixed-income strategy at Barclays Capital in New York, adding:
"But the vast majority of the market in terms of mortgage credit is what you think of as prime and Alt-A, and those applications will absolutely rise when rates rally."
The Mortgage Bankers Association said its seasonally adjusted mortgage application activity index rose 2.8 percent in the week ended March 9 to 690.5, the highest since 721.2 in the week to Dec. 8.
A year ago, this measure stood at 574.4 and 30-year loan rates were at 6.42 percent.
Fixed 30-year mortgage rates excluding fees dipped 0.01 percentage point last week to average 6.03 percent, the lowest since 5.98 percent in the week to Dec. 1, the MBA said.
"It's one of the things that smoothens out the subprime weakness and the effects of a weaker housing market," Rajadhyaksha added. "Affordability is a little better for all borrowers because mortgage rates are moving lower."
The MBA's seasonally adjusted purchase index, viewed as a timely gauge of U.S. home sales, gained 2.2 percent to 414.3. The group's seasonally adjusted refinancing applications index climbed 3.5 percent to 2,312.2 in the March 9 week.
On a four-week moving average, which smooths volatility, the market index rose 2.0 percent to 648.7, the purchase index gained 0.9 percent to 400.6 and the refinance index increased 3.4 percent to 2,102.8.
SLOWER TURNAROUND
The MBA on Tuesday pushed back when it thought the U.S. housing market would turn around, saying the sector would regain its footing near the end of the year instead of mid-year as it had forecast in December.
While the U.S. economy and job markets were solid, home price gains slowed or prices fell in the fourth quarter, the MBA said.
Subprime borrowers, or those with weak credit, are more vulnerable when home price appreciation fades and interest rates on their adjustable-rate loans jump.
Troubles in subprime loans helped trigger the highest overall mortgage delinquency rates in 3-1/2 years, and the highest share of home loans entering the foreclosure process last quarter than at any time in the MBA's 37 years of conducting a national mortgage delinquency survey.
The prevailing market fear is that the subprime sector's troubles could infect other mortgages and the economy.
The National Association of Realtors on Tuesday also lowered its forecasts for home sales and construction, although the group still predicts a U.S. housing recovery this year.
David Lereah, chief economist at NAR, said subprime lending problems

could further inhibit housing.
Lower mortgage rates should boost applications to buy homes, said Nancy Vanden Houten, analyst at Stone & McCarthy Research Associates in Princeton, New Jersey. However, “the impact of lower rates will be tempered by any weakening in the economy and tighter lending standards.”

Posted by Levetha A at 1:33 PM 0 comments
Labels: Mortgage , Mortgage Application

TUESDAY, MARCH 13, 2007

Federal Tax Agent Accused of Trying to Cheat the Government on his Taxes

A federal tax agent was arrested on charges that he engaged in tax fraud, finding ways for him and others to dodge taxes by claiming that their income was offset by deductions belonging to a company he operated out of his home.
Harry Willner had worked as an Internal Revenue Service agent since 1974 before he was charged in an indictment in U.S. District Court in Manhattan with corrupt interference with the administration of tax laws and willful aiding in the preparation of a false tax return. If convicted, he could face up to three years in prison on each of six counts.
In court papers, federal prosecutors said Willner, 59, engaged in the scheme while working as a revenue agent with the large and mid-size business unit of the IRS in New York.
They said he carried out the fraud by trying to create tax loopholes while purportedly working as an officer at an advertising business, NIA Advertising Inc., whose address was the same as his residence's.
The government said Willner claimed that NIA loaned a company, Royal Magazine Inc., $849,000 (€645,332) from 1998 through 2001 but provided no evidence of a written contract or agreement to verify the debt.
Willner then claimed a "bad debt" reduction on NIA's corporate tax return of more than $758,000 (€576,163), though he could not take advantage of much of it because the income of the business was minimal, the indictment said.
Afterward, Willner tried to get an accountant to help him get other taxpayers to funnel their income through his advertising business so they could take advantage of the large debt, according to the indictment.
Prosecutors said Willner also tried to use the debt as a deduction by having his fee as a teacher at Manhattan private schools paid to the advertising business rather than directly to him, prosecutors said.
Willner was released on his own recognizance after a brief court appearance Monday. His attorney, Robert Baum, declined to comment.

Posted by Levetha A at 12:45 PM 0 comments
Labels: Tax

Free tax preparation help available for military families

Members of the military and their spouses may be eligible for free tax preparation help and filing of federal tax returns, according to the Internal Revenue Service.
The U.S. Armed Forces participate in the Volunteer Income Tax Assistance Program. The Armed Forces Tax Council oversees the operation of the military tax programs worldwide, and serves as the main conduit for outreach by the Internal Revenue Service to military personnel and their families.

The council consists of tax program coordinators for the Marine Corps, Air Force, Army, Navy and Coast Guard.
The volunteers are trained to address military-specific tax issues, such as combat zone tax benefits, an IRS news release said.
For help with your taxes, bring the following records to the tax help site:
Valid photo identification.
Social Security cards for you, your spouse and dependents or a Social Security number verification letter issued by the Social Security Administration.
Birth dates for you, your spouse and dependents.
Current year's tax package, if you received one.
Wage and earning statement(s) - Form W-2, W-2G, 1099-R.
Interest and dividend statements (Forms 1099).
A copy of last year's federal and state tax returns, if available.
Bank routing numbers and account numbers for direct deposit.
Total amount paid for day care.
Day-care provider's identifying number.Other relevant information about income and expenses.
If you are married, filing jointly and filing electronically, you and your spouse will need to sign forms. If both of you cannot be present, a valid power of attorney that allows tax preparation can be used to sign and file the return.

Posted by Levetha A at 12:44 PM 0 comments
Labels: Tax

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Valid photo identification.
Social Security cards for you, your spouse and dependents or a Social Security number verification letter issued by the Social Security Administration.
Birth dates for you, your spouse and dependents.
Current year's tax package, if you received one.
Wage and earning statement(s) - Form W-2, W-2G, 1099-R.

Interest and dividend statements (Forms 1099).
A copy of last year's federal and state tax returns, if available.
Bank routing numbers and account numbers for direct deposit.
Total amount paid for day care.
Day-care provider's identifying number.Other relevant information about income and expenses.
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Posted by Levetha A at 12:44 PM 0 comments
Labels: Tax

TUESDAY, MARCH 6, 2007

Reverse Mortgage Could Be A Trap

SCENARIO 1

John and Jill		Today	In 10yrs	In 20yrs
Loan amount	Loan + 8% interest	100,000	226,927	507,305
Property value	6% increase/year	500,000	895,424	1,603,568
Value of estate	Value after loan repaid	400,000	668,497	1,096,263

SCENARIO 2

Peter and Pam		Today	In 10yrs	In 20yrs
Loan amount	Loan + 10% interest	100,000	276,899	755,014
Property value	2% increase/year	500,000	609,497	742,974
Value of estate	Value after loan repaid	400,000	332,598	-12,040*

Reverse mortgages may not be the retirement funding quick-fix that some retirees are hoping for. The results of a "shadow shop" of mortgage brokers and lenders by consumer group Choice shows that retirees tempted to take out a reverse mortgage need to tread very carefully.
Reverse mortgages are pitched at homeowners over 60 who want to supplement their retirement income or take the loan as a lump sum.
The loan is secured against the property and the borrower does not pay anything back until selling, or permanently moving out of their home. If the borrower dies the debt is repaid out of the estate.
Originally, reverse mortgages were sold to consumers directly by lenders but now they are being sold increasingly by mortgage brokers who are usually not licensed and are not required to adhere to any professional standards, on sales commissions.
Choice sent three 65-year-olds to visit 10 mortgage brokers and five lenders and found "glaring deficiencies" in the advice provided.
One shadow shopper told a broker that he wanted a $60,000 loan, but was offered $300,000.
Choice says the majority of the brokers and lenders encouraged borrowers to take the maximum loan instead of the amount requested.
Brokers usually receive an upfront and ongoing commission as a percentage of the amount borrowed, creating a potential conflict of interest as it is in the brokers' interest to recommend as large a loan as possible. As the borrower does not make any repayments on the loan the debt quickly accumulates as the interest compounds.
Choice gives the example of Peter and Pam who borrow $100,000 against their house valued at $500,000 and pay 10 per cent interest. The debt will grow to $755,000 in 20 years.
Assuming that the value of their house grows at an average of 2 per cent

a year, over 20 years it would be worth almost $743,000 leaving the couple owing $12,000 to the lender. The lenders usually promise to cover any shortfall with a "no negative equity guarantee", meaning the lender will not pursue the borrower or their estate for extra funds should the house be worth less than the loan. However, most contracts say the "no negative equity guarantee" will not be honoured if the borrower is in default at the time of sale of the house.
Choice says the definition of "default" is a wide one and could be triggered by relatively minor issues such as not punctually paying the rates. Once in default the lender can ask for immediate repayment of the loan.

Most brokers did not talk to the consumers about alternatives such as freeing up cash by buying a smaller home. They did not talk about future needs such as long-term care and whether they would have enough money left to move to a retirement village. Most did not mention that the borrower would have to pay for maintenance, rates and building insurance, nor did they inform potential borrowers that all residents have to be owners of the property.
The need to clean up the mortgage-broking industry is recognised by the states and territories, which have responsibility for brokers under credit laws, but they have been dithering on establishing a uniform licensing regime.
It is more than three years since the NSW Consumer Credit Legal Centre released its landmark report highlighting the problems in the industry and recommending national regulation. Late last year, the NSW Government released details of pending reforms which will require mortgage brokers operating in the state to be licensed or registered, undergo probity checks, be members of an approved dispute resolution scheme and to have compensation arrangements in place. But national adoption of the pending NSW reforms is still a long way off.
There is no doubt that, used properly, reverse mortgages can fill a real need for retirees whose only major asset is their house. But, until the governments adopt the NSW reforms, the combination of reverse mortgages and mortgage brokers will continue to be a potentially hazardous one for unsuspecting retirees.

Posted by Levetha A at 10:41 PM 1 comments
Labels: Mortgage , Retirement , Reverse Mortgage

MONDAY, MARCH 5, 2007

Mortgage Defaults Spread, Snagging More Borrowers

The mortgage market has been roiled by a sharp increase in bad loans made to borrowers with weak credit. Now there are signs that the pain is spreading upward.
At issue are mortgages made to people who fall in the gray area between "prime" (borrowers considered the best credit risks) and "subprime" (borrowers considered the greatest credit risks). A record $400 billion of these midlevel loans -- which are known in the industry as "Alt-A" mortgages -- were originated last year, up from $85 billion in 2003, according to Inside Mortgage Finance, a trade publication. Alt-A loans accounted for roughly 16% of mortgage originations last year and subprime loans an additional 24%.
The catch-all Alt-A category includes many of the innovative products that helped fuel the housing boom, such as mortgages that carry little, if any, documentation of income or assets, and so-called option adjustable-

rate mortgages, which give borrowers multiple payment choices but can lead to a rising loan balance. Loans taken by investors buying homes they don't plan to occupy themselves can also fall into the Alt-A category. Borrowers who take out Alt-A mortgages are considered less risky than subprime borrowers because of their higher credit scores. But as the housing market cooled and loan volume declined, some lenders lowered their standards for Alt-As. Now a rising number of borrowers who took out these loans are running into trouble.

Data from UBS AG show that the default rate for Alt-A mortgages has doubled in the past 14 months. "The credit deterioration has been almost parallel to what's been happening in the subprime market," says UBS mortgage analyst David Liu. The UBS report contrasts with testimony Federal Reserve Board Chairman Ben Bernanke gave to Congress yesterday. "Our assessment is that there's not much indication that subprime issues have spread into the broader mortgage market," Mr. Bernanke said.

To be sure, defaults have remained very low in the prime market -- and despite the uptick in bad loans, the problems in the Alt-A sector aren't as severe as those that have roiled the subprime market. Some 2.4% of Alt-A loans are at least 60 days past due, according to UBS, which looked at mortgages that were packaged into securities and sold to investors. That is well below the 10.5% delinquency rate for subprime mortgages. (During the housing boom, delinquencies were low for all types of loans because borrowers who wound up in trouble could refinance or sell.)

Some borrowers who took out Alt-A loans in recent years are starting to feel the strain. Johnny and Shirley Johnson, retirees in Cleveland, took out an option ARM when they refinanced their $92,700 mortgage in July 2005. The loan carried a 3.5% introductory rate that began moving upward a few months later. The couple, who live on a fixed income, are currently making the minimum payment on their loan. But they are afraid they won't be able to keep up with their loan and other debts once their monthly mortgage payment adjusts upward later this year.

"We don't want to lose our home," says Ms. Johnson. The couple is working with Acorn Housing Corp., a nonprofit group that provides housing counseling, in an effort to refinance into a 30-year fixed-rate mortgage. Though the monthly payment would be higher, the new loan would protect them against future increases.

Housing counselors and bankruptcy attorneys say they are seeing an increase in troubled borrowers who previously had good credit. "We have clients with 720-plus credit scores, and they are in awful products," says Jennifer Harris, executive director of the Home Loan Counseling Center in Sacramento, Calif. Some of these borrowers took out option ARMs with low introductory rates and are likely to fall behind when their monthly payment resets at a higher level, she says.

Thomas Gorman, a bankruptcy attorney in Alexandria, Va., says he is seeing more financially strapped borrowers who "probably bought more house than they could afford and then took on more credit-card debt" to

furnish the house and pay for the move. When the housing market cooled, they were "caught in the middle," unable to sell their home or refinance and make their debt load more manageable.

Lenders are also tightening their standards. At a meeting with investors last week, IndyMac Bancorp Inc., the nation's largest Alt-A lender, said it had raised the minimum credit score at which borrowers could finance 100% of a home's value and took a number of other steps to tighten lending guidelines.

This week Lehman Brothers Holdings Inc.'s Aurora Loan Services unit raised the minimum credit score and reduced the maximum amount homeowners could borrower without documenting their income and assets.

Impac Mortgage Holdings Inc., which specializes in Alt-A loans, said recently that it had tightened its lending standards 17 times last year. The company cut back on riskier loans and began relying more on analytical tools to verify a borrower's income and creditworthiness. Other lenders were quick to scoop up many of those loans, but now they are also pulling back, says Impac President Bill Ashmore.

Lou Barnes, a mortgage banker in Boulder, Colo., says a client with a good credit score was turned down this week for a mortgage to buy an investment property with a small down payment and no documentation. That same borrower was approved for a "nearly identical" loan in August and November, he says. Still, Mr. Barnes calls the tightening "modest." Alt-A lenders are "nibbling at the edges," he says.

The UBS study found that the problems are greatest for Alt-A borrowers who took out interest-only adjustable-rate mortgages, which allow borrowers to pay interest and no principal in the loan's early years, with 3.71% of interest-only ARMs originated in 2006 at least 60 days past due. As in the subprime sector, the riskiest loans are those made to home buyers who put little, if any, money down and don't document their income or assets.

As delinquencies rise, some investors who bought lower-rated securities backed by these mortgages are likely to face losses, according to Mr. Liu of UBS. While defaults are expected to be lower than in the subprime sector, so are the reserves set aside to cushion bond investors against such losses.

Defaults are much lower for option ARMs. But the problems with these loans could be "backloaded," says Mr. Liu, because borrowers with these loans are still making the minimum payment.

Glenn Costello, a managing director at Fitch Ratings Inc. in New York, expects the foreclosure rate for Alt-A loans to ultimately be only 10% to 20% of the rate for subprime borrowers.

Yet investor concerns about Alt-A loans are rising, according to Walter N. Schmidt, a mortgage investment strategist at FTN Financial Capital Markets in Chicago. A report from mortgage analysts at Barclays Capital in New York this week pointed to fraud as one reason for early defaults on Alt-A loans. The mortgage industry is battling a rash of cases in which borrowers, loan officers and appraisers collude in providing false

information to induce lenders to advance more money than homes are worth.

Posted by Levetha A at 8:13 AM 0 comments
Labels: Bad Credit Consolidation Loans , Financial Capital Market , Mortgage

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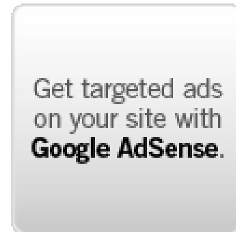

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