Homeowners should contact lenders or counselors to avoid foreclosure

by Jim_Woodard

A single phone call or visit to a lender's office could save a family thousands of dollars and possibly their home.

Unfortunately, most delinquent mortgage borrowers (57 percent), who are facing potential foreclosure proceedings, still don't know there is a good chance their loan can be modified to make it affordable, thus escaping foreclosure and the possible loss of their home. But the homeowner must take the first step in talking to their lender.

That revelation was revealed in a recent survey taken by Roper Public Affairs, a market research firm, and Freddie Mac, a major purchaser of existing mortgages. The survey also found an increasing number of delinquent borrowers who recall their lenders reaching out to them and who in turn reached out to their lender to discuss workout options.

On a positive note, the survey revealed that an increasing proportion (44 percent) of delinquent borrowers are aware that there are housing counselors they can talk with about their mortgage-related problems.

"The new survey shows that efforts to get borrowers to call lenders and counselors are starting to work, but that too many at-risk borrowers are still unaware their servicers routinely provide alternatives that can help them stay in their home," said Ingrid Beckles, with Freddie Mac. "This underscores the importance of convincing borrowers to pick up the phone and call their servicer. By doing so, they can find out if and how they can avoid foreclosure."

Servicers are firms that collect monthly mortgage payments on behalf of investors, such as retail lenders and Freddie Mac.

Freddie Mac alone now helps an average of 1,000 troubled borrowers each week avoid foreclosure through forbearances (delaying or reducing payments). Possible options include implementing a modified repayment plan or restructuring the terms of the loan.

"One problem is that servicers are unable to contact borrowers in more than half of the foreclosures we see," Beckles said. "That's why it is imperative to closely track borrower awareness of workout options so the industry and government can evaluate and enhance their efforts to get more borrowers talking to their servicers about avoiding foreclosure."

In addition to finding that 57 percent of delinquent borrowers were unaware of their workout option, the survey found awareness increased when homeowners learned about specific options that might be available to them.

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Q: Are high-priced luxury homes losing their values more rapidly than others?

A: Surprisingly, values of luxury multi-million dollar homes are continuing to grow, despite the general trend of lowering home values. Sales of new and existing homes continue to be sluggish while values overall have dropped a bit in most markets.

High priced homes, costing $5 million and above, climbed 31 percent during the first quarter of last year compared with the same quarter the previous year, according to DataQuick, a real estate research firm. Values of those properties have continued to rise.

Analysts say it's a matter of supply and demand. There is an increasing number of high-priced homes on the market, but there are even more affluent buyers looking for the right property. A growing number of those prospective buyers are wealthy foreign buyers from Asia and Europe looking for an opportunity to capitalize on the weak U.S. dollar.

"The rich are even richer than ever, and the very wealthy are pouring more money into residential real estate," said the founder of Institute for Luxury Home Marketing. "While Europeans have always invested in American properties, new buyers are increasingly from Brazil, Russia, India and China."

Q: How is home affordability shaping up?

A: For several years, an increasing number of families were being priced out of the home-buying market. In recent months, that trend was reversed and more families are able to afford a home, according to a report from the National Association of Realtors.

The association's Housing Affordability Index is on the rise. The index is based on the number 100 - the point at which a median-income family has the amount of income they need to purchase a median-price home. The number assumes the family has a 20 percent down payment and the house payment takes no more than 25 percent of their gross income for principal and interest. The higher the index figure, the more affordable housing is for families with a median income.

Last year, the housing affordability index increased from 109 to 122, the highest it's been since February 2005. Even in Western markets, where affordability had dropped into the teens during the height of the real estate boom, the index has increased from 71 to 83.

Another important number in the report is the median mortgage payment as a percentage of income, showing how much of a person's income is needed to make a house payment. Historically, the highest affordability was in 1972 when that number was 16.2 percent of monthly income. The lowest was in 1981, when a house payment consumed 36.3 percent of monthly income. This was due to record high interest rates at that time. Currently, the percentage is 20.5.

Send inquiries to Jim Woodard, P.O. Box 120190, San Diego, CA 92112-0190. Questions may be used in future columns; personal responses should not be expected.

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