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Avoid Foreclosure: Know Your Options

by M. Anthony Carr

If you're running late on your mortgage payments, or you think you're about to because of some unforeseen devastating circumstances, don't panic - there are many options for those who need such help. While you may be tempted to jot down the phone number on the "Avoid Foreclosure" placard in the highway median, there are more effective ways of getting your mortgage house in order.

The latest news from California shows that notices of defaults (NOD's) are at an eight-year high in the state. Why is that important? In real estate, as goes California, so goes the Union (usually). Buyer brokerage started in California, as did property disclosure, runaway home prices and real estate slumps - they all started in California.

A piece in the San Francisco Mercury News last week, cited figures from DataQuick Information Services, an online group that gathers real estate data from public records. Some jurisdictions reported increases of NOD's of nearly 80 percent over the same period a year ago. San Francisco's rate was up 63 percent.

Fortunately, for these homeowners (borrowers) lenders have put procedures into place to help their default customers who wind up in a temporary financial situation where they have missed several payments. The lender knows the homeowner is good for the money once they get back on their feet.

Both Fannie Mae and Freddie Mac are the two government-chartered mortgage funding companies who provide money to lenders across the country. The two mortgage behemoths have procedures (referred to as loss mitigation) established for their mortgage company affiliates to process default loans. Fannie Mae has two sets of Loss Mitigation procedures: one is for the homeowner who can keep the property and the other is for those who end up having to let the house go through either a short sale or foreclosure.

The first set of procedures involves three options: repayment plan, forbearance and loan modification.

Under the repayment plan, reviewed on Fannie Mae's consumer site, the lender "may be able to arrange an increase in monthly payments until the loan is brought current. This means that each month your clients would add an additional amount of money (determined by the servicer) to their regular monthly payment until the amount that was overdue has been repaid."

Forbearance is a little more formal, involving a "written agreement between your clients and the mortgage servicer to reduce or suspend monthly payments for a specific period of time."

This option was designed to provide the borrower some time to resolve the hardship, whether it's loss of job, illness, etc., until they can begin to resume their scheduled mortgage payments. After the time period passes, the

borrower must "resume regular monthly payments as well as pay additional funds to make up for the past due amount."

Finally, there's the actual loan modification where the lender actually changes the terms of the mortgage to bring the borrower back in line with the original agreement and to avoid foreclosure. "This option generally is considered for homeowners whose financial problems are expected to be more long term," according to the site.

The second set of options to avoid foreclosure do not necessarily mean the borrower will come out unscathed, just without as many financial bruises as if the house went into foreclosure.

These alternatives include selling the house or turning the home over to the lender.

One way to sell the house is to find a buyer who will assume the loan. Even though the mortgage may be a "non-assumable," when facing a foreclosure, the lender may reconsider this clause if they can find another borrower who can take on the responsibility of the defaulting buyer.

A second way to sell the house involves a preforeclosure sale. In this process, the lender would "agree to accept the proceeds of the sale, even though it may be less than the amount owed on the mortgage. To avoid going through a foreclosure proceeding, Fannie Mae and the servicer can agree to accept the proceeds of the sale in satisfaction of the mortgage loan."

It's expensive to foreclose a home, thus a lender would rather get something for the mortgage than nothing at all and then have to pay out cash to sell the house at a discount.

Finally, there's the deed-in-lieu of foreclosure. This is where the borrower voluntarily gives over the deed to the lender. It's about the same situation as the preforeclosure and is considered a last resort since the lender is now going to have to sell the house themselves.

The above procedures may differ from Fannie Mae, Freddie Mac and government insured mortgages. Here are the web sites where you can research the requirements:

**Fannie Mae
Freddie Mac
Veterans Affairs
Department of Housing and Urban Development
(FHA mortgages)**

At any of these sites search "foreclosure alternatives" or "loss mitigation" for more information on avoiding foreclosure.

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Homebuyers Paying Too Much in Points, Says New Statistical Study.

by Kenneth R. Harney

Do mortgage applicants seeking lower interest rates end up paying too much in upfront points? A new statistical analysis suggests that only a small fraction of consumers who opt to pay points hold onto their mortgages long enough to actually recoup the costs.

In fact, according to first-of-its-kind research by Penn State business professor Abdullah Yavas and Yan Chang, a senior economist at mortgage investor Freddie Mac, home buyers who paid points with their loans tended to pay off their loans 37.5 months before the "break even" point.

"The average mortgagor with points ended up defaulting, moving or refinancing more than three years before" they recouped the upfront cash outlays on those points, according to the authors. Yavas and Chang examined detailed data on 3,785 loans closed between 1996 and 2003 that were funded or securitized by Freddie Mac.

Of the borrowers who paid points to lower their rates, only 1.4 percent stayed in their mortgages long enough to financially justify the payments. Conversely, of the home buyers in the study who chose not to pay points, only 1.5 percent of them would have been better off by paying points to lower their rates.

Points represent lump-sum upfront interest paid in advance, typically in connection with a discount on the note rate charged the borrower. Though the conventional assumption in the real estate industry is that each point paid cuts a borrower's interest rate charges by 0.25 percent, the study documents that the actual rate reduction was much less. Using regression analysis, Yavas and Chang estimated the effective rate decreases per point at anywhere from 0.034 percent to 0.096 percent. Equally significant, said the authors, "Our results also indicate that the reduction in the interest rate is not proportional to the increase in points."

With a lower rate impact than generally assumed, the break-even period for people who paid points was considerably longer than they may have believed -- or perhaps had been led to believe.

The authors note that the period of time covered by the loans studied coincided with generally declining mortgage interest rates and a rising propensity by home owners to refinance. That, in turn, often vitiated the value of the points they paid on their mortgages up front. The time span of the study also coincided with the early phase of the housing price boom, which stimulated record levels of resales and purchases.

The net effect was that many people moved sooner than they apparently expected -- again eliminating the financial advantage they might have sought in rate savings by paying substantial points up front.

The bottom line for home buyers, refinancers and their professional advisers: Before sinking thousands of dollars into points, make absolutely certain that your rate and interest payment savings are worth the upfront outlay, especially given other investment uses you might have for that money. And try to be reasonably certain that you'll stay in the property long enough to break even ... or better.

Happy Valentine's Day!



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