

Santa Cruz Sentinel.com

Help for underwater homeowners comes with strings attached

By JONDI GUMZ

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SANTA CRUZ -- Every day, Soquel real estate attorney Pamela Simmons said she sees homeowners who could afford their mortgage if the lender would reduce the amount owed on the original loan.

"This very well may help local residents if the lenders offer such loan modifications," she said.

New guidelines and incentives announced Friday by the Obama administration are designed to encourage banks and investors to reduce principal for borrowers who are "underwater," or owe more than what the house is worth.

The program, like the Obama loan modification program announced a year ago, is voluntary. About 10 percent of 3.4 million eligible borrowers are in a three-month trial modification program, according to a database kept by watchdog

organization Pro Publica; about 4.9 percent have obtained a permanent modification.

Real estate agent Sebastian Frey of Thunderbird Real Estate in Capitola predicts the new federal guidelines will help some people in Santa Cruz County but probably not many.

Half of those who get their loan modified probably will have trouble paying in another year or two, he added, citing a report issued Thursday by the two federal agencies, the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

"All I can say is, every little bit helps," Frey said. "They are chipping away at the problem, but it is a huge problem and there is no easy fix for it."

With the writedown, the new mortgage cannot exceed 115 percent of the home's value.

That could be a sticking point.

California has 2.4 million underwater mortgages, the most of any state, according to First American CoreLogic, a

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real estate information company that operates nationwide.

The percentage of these upside down mortgages grew from 34.7 percent to 35.1 percent between Oct. 31 and Dec. 31, the company reported.

In Santa Cruz County, the percentage of upsidedown homeowners is smaller but the numbers are growing at a steady pace.

Some 20.2 percent were underwater Dec. 31, compared to 18.6 percent Oct. 31, with the numbers expanding from 10,106 to 10,962, according to First American CoreLogic.

Once negative equity reaches 25 percent, when the homeowner owes 25 percent more than what the home is worth, homeowners tend to default on payments at the same rate as investors, a First American CoreLogic analysis found.

"Negative equity is a significant drag on both the housing market and on economic growth," said Mark Fleming, chief economic with First American CoreLogic. "It is driving foreclosures."

So far this year, 421 default notices have been issued in Santa Cruz County, outpacing sales by 10 percent, which means in another five to 10 months many of these homes will be on the market at discounted prices.

"The supply pool is filling quicker than it's draining, and the mid-to-high end market continues to fall," according to real estate analyst Mark Hanson of Menlo Park, who predicts California will see a "double dip" in prices.

MORTGAGE RELIEF

New voluntary guidelines for the Making Home Affordable Program to help struggling borrowers:

- Open to homeowners, not investors. ■
- Borrowers must be current on their mortgage, owe less than \$729,750, have a credit score of 500 or more, and fully document their income. ■
- Lender must write down the principal by least 10 percent, though a description of the program posted by federal officials said they expect the average reduction 'to be significantly more than that.'

Source:

www.financialstability.gov/latest/pr_03262010.html

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