

After The Storm

By Anna Smith

When the first headlines about adjustable rate mortgage resets started appearing in 2005, we had to "wait" for the storm; now we're waiting for the storm to pass. And pass it will, as the good book says. We still have 1+ trillion dollars worth of adjustable loans resetting and a lot of loans yet to wash out of the system that shouldn't have been written in the first place. The House and Senate will or won't succeed with new mortgage reform legislation; the President will or won't veto it; the lenders will or won't cooperate with writing off mortgage debt that borrowers can't pay; consumers, homeowners, and tax payers will or won't benefit from all the new rules, laws and disclosures. Somehow, time will heal this wound as time has a tendency to do. Hundreds of mortgage bank implosions and catastrophic losses at those banks which are still standing have forced the loan decision pendulum to swing back to the previous industry standards of proving and documenting jobs, income, credit usage and savings of the borrower. Unfortunately, pendulums sometimes swing too far, and this one has, causing loan declines for deserving borrowers who are caught off guard because they're not sub-prime. Bottom line: Today's new breed of homebuyer can 'afford' to buy what they're buying, and their increase in number will return stability to the housing market.

So how do we help that deserving borrower? One of the shining stars of the turnaround will be provided by the Federal Housing Administration. As a result of the Economic Stimulus Act of 2008, which became law in February, "bank owned" for sale signs have come down often with the help of an FHA loan. "FHA loans are being used to purchase about 50% of my bank owned properties", says Karen Wheeler, an expert on Real Estate Owned (REO) properties and Agent with Coldwell Banker in Del Mar. Some highlights to the program: FHA offers the only 3% loan on the market; sellers can contribute up to 6% of the purchase price to make the deal happen; temporary loan amount limits (expected to become permanent) are almost \$700,000 in San Diego County; gift funds from a family member are allowed; family co-signers who aren't going to live in the property can help borrowers qualify in some cases. Before you say, "Wait a minute – are these loans going to go bad, too?" – rest assured, borrowers have to establish income with W2's tax returns, have decent credit history, and contribute at least 3% of their own funds. FHA loans also require mortgage insurance, which is tax



deductible for some borrowers through 2010, in addition to their regular mortgage interest tax deductions. Bottom line: Uncle Sam wants to keep the American dream of home ownership alive and well and they're proving it with the new FHA loans. Between the availability of these loans, the increased loan amounts, and great buys in the marketplace, it is time to help this turnaround along and spread the good word to everyone you know who is renting.

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