



Surviving a Mortgage Crisis I

Many Americans who bought a house in the last three to four years are finding themselves in a major mortgage crisis. According to Dale Vermillion, a prominent mortgage industry trainer and consultant, a "perfect storm" is occurring in the mortgage and housing industry. As clearly observed in today's economy, rates are increasing, property values are decreasing, margins are shrinking, and regulatory pressures are mounting. An escalating foreclosure rate is evidence of the severity of the problem.

Vermillion identifies the common factor in many of the foreclosure statistics as loans that were not designed to sustain the borrowers' financial success in the future. In other words, they focused only on the short-term *situation*, not the long-term *solution*. Loans with low initial rates provided the desirable home, affordable payments, and perhaps cash, but were only affordable on a temporary basis. The subsequent higher adjusted rates have been a major factor for many, if not most, of the delinquency, default, and foreclosure statistics.¹

A mortgage consultant with a strong Christian perspective, Vermillion has provided Crown with suggestions for those families caught in this vicious storm, including practical steps for surviving the crisis.

We asked him to tell us how he would advise this hypothetical couple: "We are two years into our mortgage and have just received our first regular mortgage statement after the end of the interest-only period. We did not expect our payment to increase this much. How can we find out what our options are?"

There are only two options available: (1) Get a new mortgage or, if that is not possible, (2) live

with the mortgage you have but make some important changes in lifestyle. These are the only choices if the family is to maintain its financial health.

Option I. Get a new mortgage -- First and foremost, the mortgage seeker must **Be Prepared and Know the Facts.** Vermillion recommends these Preparation Steps before talking to a lender:

Pray first --

1. **Pray for wisdom and discernment.**
2. **Pray for open eyes to know who to work with.**
3. **Pray for patience to not rush – to get the facts first.**

Know Your Credit Score, Equity, Debt, and Income

Credit (FICO score), equity, debt, and income are the four primary factors used by all lenders to determine eligibility.

- A. Know your FICO (credit) score and what it means. Here are some tips:
 1. Request a free credit report. You can do this online through Web sites like annualcreditreport.com or freecreditreport.com.
 2. Understand how the score affects your mortgage options: lower FICO = less loan options and a typically higher interest rate; higher FICO = more options and a typically lower rate. A 720 FICO score or higher usually has the best options.
 3. Knowing your FICO and credit status reduces your vulnerability to the dishonorable loan originator.
- B. Know your current mortgage pay-off amount.
 1. Find out the specific dollar amount needed to pay off your current mortgage.

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2. In most cases, the pay off balance is different from and higher than the mortgage balance. There may also be a penalty if you pay off early.
- C. Know if there is sufficient value in your property.
1. August 2006 was cited as the peak of the real estate market. Property values in most markets are down from that time. The current value will determine the viability of refinancing.
 2. During the mortgage boom (2002 – 2006), qualifying for a refinance was much easier because of heightened property values, the prevalence of 100% financing, and access to “stated income” loans. Because these programs no longer exist in most cases, you may not qualify for refinancing today.
 3. Typically, any loan that exceeds 80% or 85% of the property value falls into a higher risk category and therefore results in higher mortgage pricing (increased interest rates or fees).
 4. To determine your current value, look at the sales of similar homes over the past 60 days - do not assume appreciation.
 5. Based on the current property value and mortgage balance, be honest with yourself in determining “Do I have enough to pay off the current mortgage and any fees?” If you do not, then do not waste time, energy, and emotion on a refinance, but instead recalibrate your budget.
 6. Remember, there are very few, if any, 100% and 125% loans in today’s market, so if the loan exceeds 90-95% of your property value, you may not qualify (125% not recommended anyway).
- D. Debt & Income Ratio – Personal Budget Analysis
1. Know exactly where you stand. Pre-qualify yourself before you look for a mortgage.
 2. Typically, qualifiable debt to income ratios (DTI’s) vary from 31 to 35%.
 3. Determine your DTI by simply dividing your monthly mortgage payment by your monthly gross income. If your ratio is more, you probably cannot and should not refinance, and should look at modifying your budget and lifestyle.

Option II. Live with the mortgage you have – regardless of whether you cannot refinance or are attempting to refinance.

- A. Keep Your Mortgage Up-to-date
 1. A mortgage foreclosure will dramatically affect your credit, and may remove options for future home purchases or rent.
 2. Talk to your unsecured creditors (credit cards and personal loans) about options to reduce your payments to help you get through this period, or consider a reputable credit counseling company.
- B. Develop a very basic “no-extras” spending plan and recalibrate your spending.
 1. Cut clothing, entertainment, meals out, and anything else that is not absolutely necessary to life.
 2. If needed, consider a second job.
 3. Identify things you may be able to sell that have value.
- C. Of all of your debt, keeping your mortgage current is the most important, because the number one factor impacting the FICO score is the mortgage history.

The information from Dale Vermillion is intended to educate the public on how mortgages will affect life long term. The second installment of this important topic for families in a mortgage crisis will cover the importance of the mortgage as part of building a life plan, a holistic plan, one that goes well beyond one transaction.

The next issue of **Hot Topics** will also cover specific steps from Vermillion for finding a reputable mortgage lender who will work with you to find a mortgage that will achieve those life goals.

More resources by Dale Vermillion may be found on his Web site, www.MortgageMpowered.com .



Crown Money Map™ Financial Software will lead you through the process of examining all your income and expenses. The software will also teach you how to create a reasonable (or “no-extras”) spending and savings plan. <http://www.crown.org/financialsoftware/>

The information in this UPDATE was adapted from an interview with Dale Vermillion by Bette Noble, Crown Sr. R&D Specialist, Global Strategic Research and Innovation. Quotes or statistics must reference the original source.

¹ Navigating the “Perfect Storm,” by Dale Vermillion, Broker Magazine, April 2007, www.dalevermillion.com.