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Home Front: Housing bill offers some hope

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The nation's new housing bill will offer a lifeline to an estimated 400,000 struggling borrowers starting Oct. 1, including many in Sacramento. How can you get yours?

Nothing is guaranteed, but here's the deal so far. The government will guarantee $300 billion in refinancing funds to get people out of risky adjustable loans and into safer 30-year fixed loans. You'll be eligible even if you owe more than your house is worth, even if you're behind on payments.

The bottom line: The bill lets borrowers refinance their homes at what they're worth today – instead of the extreme high price paid during the boom.

That's an attractive option. And loan counselors report a spike in inquiries. A Thursday night workshop on foreclosures sponsored by Sacramento's Neighborworks Homeownership Center, which helps troubled borrowers, was expected to draw a large crowd.

"What's driving the numbers, I think, is this bill," said Mike Himes, a Neighborworks executive.

Still, the bill has restrictions. Here are some early details.

• The program, called Hope for Homeowners, is for people who live in their homes. This is not for investors. The key requirement is that you can't afford your mortgage. To qualify for the Federal Housing Administration rescue, your house payment must be consuming more than 31 percent of your monthly income.

• Struggling homeowners must show they did not intentionally default on their mortgage. And they must show they didn't lie about their income to qualify for it.

• If the value of your home rises again and you sell it or refinance the loan, you may have to split some of the gains with the government.

• Most important: Your lender will decide if you get this chance to refinance. Lenders, indeed, will be key to whether the program meets its goals of helping homeowners avoid foreclosure and stabilizing the housing market.

Participating lenders must "write down" the value of loans – the principal – to today's prices. They'll have to waive any prepayment penalties.

That means taking a loss.

Subprime lenders and loan servicers have been reluctant so far to write down principal. Figures gathered by the state show writedowns are less than 1 percent of loan workouts among the lenders tracked.

Yet some experts said lenders, already taking huge losses when homeowners default, might work with the FHA program. This is a way for the banks to take less of a loss, said Elk Grove foreclosure attorney Jonathan Stein.

"I think lenders who already own a lot of real estate are going to be more inclined to follow through on this," he said. In other words, refinancing will be easier than maintaining vacant homes.

One unknown is whether this will work for people who bought without making down payments. These packages – called "80-20s" – involved taking out one loan for the house payment and another for the downpayment.

Striking a deal will be easier if both loans are refinanced by the same lender. Two different lenders means both have to agree, making things more complicated, said FHA spokesman Lemar Wooley.

Where can you learn more?

Stein advised calling your lender. Tell the lender you're interested, then stay as current as possible on payments. Nothing will happen before the program starts Oct. 1.

Wooley of the FHA suggested contacting a government-approved housing counselor such as Neighborworks (916) 452-5356 in Sacramento), or calling the national Hope Now Alliance (888) 995-4673 or the FHA (800) 225-5342. The agency also has a fact sheet at www.fha.gov.

Why title companies struggle

Title companies usually don't make much news unless they collapse. That happened July 29 when Financial Title closed 10 area offices.

It made Home Front wonder: If home sales are rising, why are title companies laying off staff and closing? Don't they make more money the more title searches they do?

Cameron Park real estate broker John Lockwood of Elite Properties gave two reasons.

One is the decline of refinancings. Lockwood said those are a mainstay of title company revenue. But fewer owners are refinancing now that home values have sharply declined.

The second reason: Bank repossessions account for most of the rising sales. Banks use out-of-town title companies, usually the national giants, Lockwood said. That leaves smaller competitors out of a lucrative part of the market.

"The seller gets to pick the title company," Lockwood said. "The seller these days is banks."

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