PART I

Options for "Underwater" Property Owners

CHAPTER 1

Is Your Home Worth Less Than the Mortgage?

Because of the decline in home values in the United States, many properties today are worth the same as or less than the mortgage amount. Property values have fallen as much as 30 percent in some areas of the country. They are expected to continue to decline. Once the dust settles, we could be looking at a nationwide drop as high as 50 percent.

If you owe more than your house is worth and need to sell, you are what we consider to be "underwater." What do you do? The great news is that we have many options for you. Having a house that is underwater is not the end of the world. In the past, you might lose an underwater property in a foreclosure. That is not necessarily true today.

With the real estate market as crazy as it is now, your best option is usually working directly with your bank to get your house sold quickly. Because of the nationwide mortgage crisis, banks are bending over backward to help you get your house sold or to modify your loan because they don't want you to go into foreclosure. Banks don't like to foreclose for a number of reasons, including the fact that the foreclosure process itself is very expensive for them.

Let's look at a typical scenario for an underwater homeowner:

- You bought a house for $200,000 and borrowed $200,000.
- Property values dropped 30 percent.

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- Your property is now worth $140,000.
- You still owe $190,000.

There are many reasons you may have for selling your property:

- You may be facing financial hardship.
- You have been transferred to another city and need to move.
- You are going through a divorce and need to sell quickly.
- Your spouse passed away and you can't bear the memories.
- You want to upgrade to a better neighborhood.
- You want to sell what you have and buy investment properties.
- You want to live closer to family.

How to Estimate the Value of Your Home

If you think your home may be "underwater" the first step is to get the best possible estimate of the current value of your property. To do this, you will need to find the actual selling price of similar houses in your immediate neighborhood in recent months. (These sales prices and the details on the sold homes, such as square footage, number of bedrooms, and other information about the property are called "comps.") When "pulling comps" (the term used by people in the real estate business), it is important to look at other properties similar to yours in size, number of bedrooms and bathrooms, age, and condition. If your property is a three bedroom, $1\frac{1}{2}$ bath; it would be worth less than a four bedroom, $2\frac{1}{2}$ bath property in the same neighborhood. Most people believe that only a real estate agent can look at comparable sales. Not true! Anyone can and we can help you. There are two types of comparable sales:

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1. Properties that sold through the Multiple Listing Service (MLS).
2. Properties that did not sell through the MLS.

The MLS is available exclusively to real estate agents. Typically properties sold through the MLS were sold for a higher amount than properties sold by homeowners themselves. We prefer to pull comps from another source because the MLS often gives prices that don't consider the seller concessions. Seller concessions are things that the sellers throw into the transaction that increases the purchase price (for example, chandeliers, appliances, lawn equipment). Homeowners might also sell a property for $100,000 in the MLS because they have to pay 6 percent commission—$6,000. The same homeowners could sell their property for $94,000 themselves and save the commission.

There is a great web site that is available to the general public that we love to use—www.zillow.com. Our favorite feature of Zillow is that it is FREE. To pull comps, simply type in your property address, bedrooms, bathrooms, year built, and see what pops up. Zillow will show you properties within your subdivision, within one square mile, and within three square miles. When looking at comps, we try to find properties in the same subdivision. These will be the most accurate. We also look for properties that have sold in the past six months. However, with property values falling as fast as they are, we recommend looking at properties that have sold in the past three months if possible.

Another great feature of Zillow is that it prints out an area map. You can actually see your property in relation to the other properties you are looking at. If you see a property that sold on the same street as your property, it would be an ideal comp provided the property has about the same square footage as well as bedrooms and bathrooms. We look for properties that were distressed as well. It is not always possible to tell if the property was a distress sale or not. Some comp services will put information like special warranty deed, forced sale, foreclosure, or something along those lines. The type of deed used to transfer title or ownership often shows distress. If you see anything other

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than "warranty deed" or "quitclaim deed" it was most likely some form of distress.

Many homeowners or investors call real estate agents for help when trying to determine their property value. Real estate agents typically tell you what your property is worth based on what other properties are listed for. Listed prices have nothing to do with sold prices. You could have a house that was listed for $150,000 and sold for $125,000—$125,000 is the actual value. Agents typically list properties at the "top of the market." That is, they list properties for the highest amount possible and negotiate down from there. In this book, we want to help you deal with the reality of what your property is worth right now, in this market.

What Banks Want

Banks look at properties one of two ways:

1. Performing asset.
2. Nonperforming asset.

If your payments are on time, regardless of the property value, it is considered a performing asset. If your payments are late, regardless of the property value, it is considered a nonperforming asset. The banks realize that if homeowners can't sell their properties in this market, they might simply walk away—leaving the banks with the underwater property. Banks are in the business of lending money, not owning properties. So they may be willing to work with you in a number of ways we'll describe in this book to make it possible for you to sell your home for less than the mortgage, lower your payments so you can keep your house, or pursue another solution.

Here are some principles to help you understand why a bank may be willing to help you sell your underwater home:

➢ Banks are in the business of lending money, not owning houses.

- Banks have to carry a "loan loss reserve" against defaulting loans—this is a cash reserve of unlendable money the bank must hold while a property is in default.
- Banks have quarterly reports due to investors and shareholders that need to show profits.
- Banks have year-end reports due that need to show yearly profits or losses.
- Too many bad loans make it difficult for banks to borrow money to relend.
- Too many defaulted loans cause the banks stock to drop and investors to bail out.
- Too many defaulted loans cause banks to lay-off employees.
- Too many defaulted loans cause the bank to be absorbed by a bigger bank.

Basically, too many defaulted mortgage loans wreak havoc on the bank. For all these reasons, most banks would rather help you get your property sold than risk getting stuck with the property.

In this book, we are going to cover the most creative ways to get your property sold. We are also going to explain in depth the most important concept for underwater homeowners—the short sale.

Introduction to a Short Sale

A *short sale* will be one of your best options. Basically, you negotiate with the bank to accept less than what is owed as a full mortgage payoff. Using the previous example—you owe $190,000 on your house and it is only worth $140,000 in today's market. You are underwater. You put the house on the market using the techniques in this book and get an offer. The offer is $140,000. You contact the bank (using our step-by-step instruction) and get the bank to accept the $140,000 as full payment. You are able to sell the property and the bank does not get

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stuck with it if you decide to walk away. It creates a win/win solution for both of you.

In the past, your property had to be behind in payments or in foreclosure for the bank to consider a short sale. Because homeowners are walking away from properties in record numbers, banks are doing short sales on properties where the payments are not yet late. It is an amazing time in the real estate market. There are things happening that we have not seen in the past.

Other Options for Underwater Homeowners

Sometimes a bank will not agree to a short sale, or not until certain conditions are met. In this case, you will need to pursue other solutions we cover later in the book.

A short sale is the best option if you want to sell and your property is underwater. The other options we discuss involve you staying put. For example, you could do a loan modification. Loan modifications are actually simple to do. The bank has you fill out financial papers showing that your income has changed, that your property is worth less than you owe, or that you can no longer afford the payment. Once you prove it, the bank modifies or changes your payment. When doing a loan modification, the foreclosure is withdrawn. In some cases, you can actually lower your loan balance. Loan modifications are great options for homeowners or investors who got caught up in the interest-only craze where the reset payment is now unaffordable.

If the bank will not approve a loan modification, you could negotiate a forbearance agreement. A forbearance agreement is not an option unless your mortgage payments are behind. The bank works out a repayment plan that allows you to keep your property. The delinquent amount will be added to your current payment often making the agreement impossible to keep. If your current payment is $1,000 and you are $3,000 behind in mortgage payments, the bank may agree to spread the $3,000 over 12 equal payments. This means it would add $250 to your current payment of $1,000 dollars. Your new payment is $1,250. If $1,000 was difficult to pay, $1,250 might be impossible. When

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doing a forbearance agreement you remain in foreclosure until you make the 12th payment.

Some of you may be facing foreclosure, are fed up with the situation, and just want to walk away. In this case, a deed in lieu of foreclosure might be your best bet. You simply contact the bank and inform them that you are going to deed the property back to the bank instead of going through the foreclosure process. The banks hate this and will try very hard to work something else out with you. We recently contacted Country-Wide Home Loans to help a homeowner with a deed in lieu of foreclosure. (See Chapter 2 before you try this.) The bank immediately offered to accept a short sale, asked us to list the property for 90 days, and stated that they would take any decent offer. They also agreed to stop any proceedings while we waited out the 90 days. When the bank offered the short sale, we played dumb and let the bank rep explain it to us. The rep actually had a good grasp on what needed to be done in order to close a short sale. The bottom line was that the bank rep said that the bank did not want the house and would wait until we got an offer. We were thrilled!

We will also talk about trying to sell your home retail, renting it out to ride out the storm, and much more. Having an underwater property is never easy. We buy our house expecting the value to climb so that we can sell it later and move up to a bigger house. Unfortunately, it does not always work out like that. Who knew the market would change so dramatically, that property values would fall so fast, that most of America would be underwater. The great news is—there is a solution that will work for you . . . keep reading.