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The Great Real Estate Swap Meet

Now that the Senate has killed one of the main promises made by President Obama during his campaign to allow bankruptcy judges to so-called "cram-down" on mortgage principals to current market values, we are faced with the dilemma of what next?

Let us investigate this issue briefly in this article. The revamped Hope for Homeowners law is supposed to help troubled homeowners refinance from troubled mortgages into manageable ones, but since the first iteration in October 2008, the record shows that only one family out of an estimated 400,000 homeowners was helped.

The revamped law will ease short-selling by homeowners, in fact giving them an incentive of $1,500 for a successful short sale or deed-in lieu transaction. A deed-in-lieu is an option offered to homeowners who are ineligible for a mortgage modification or a short sale. The government is also encouraging second lien holders to relinquish their claims, by giving them $1,000 incentive. Does this present the greatest Real Estate Swap Meet in the U.S? It is plausible that most of the homeowners who are foreclosing or short-selling can still afford their mortgages, but not when similar homes sell for sometimes half off what they owe on their homes. Is the new law saying to these homeowners, short sale your property to your "neighbor" while he or she sells their house to you? If the new law is not meant to encourage such activity, it seems it is inevitably nudging such transactions. The lenders by refusing to make loan modifications, which they manufactured despite their high vantage point hoping to reap considerable profit, defies sound reasoning. Now that their calculation has proved wrong, it won't hurt for them to sit down with borrowers to adjust the terms, as was once the case. Not long ago before CDOs and CMOs (securitized debt sold on Wall Street) became vogue, a borrower would go to their local bank and plead their case.

The inability of the lenders to use the 75 billion dollars provided by the Obama administration to modify these loans is alarming. In the $75 billion housing-rescue plan, financial incentives were created to encourage mortgage companies and investors to modify troubled loans. Despite the claim by the companies that 55,000 mortgages have been modified, the experience of mortgage brokers and borrowers seems to suggest that it is a hurdle to get the lenders to the negotiating table in order to facilitate these modifications.

With the new "Cash for Keys" program, some borrowers may be eligible for the U.S. Treasury Dept.'s deed-in-lieu program, The lender in this instance acquire properties back from delinquent borrowers, and the lender also agrees to write off the debt. The homeowner receives a small incentive, typically about $1,000, if they vacate the property by a specified date and the home is not vandalized, as has been the case in many foreclosed properties.

The great exchange may be going on around you especially in highly depressed markets. Have you noticed the signs?

-Al Som-Anya, MBA, Broker

SPECIAL POINTS OF INTEREST:

- "Cash for Keys and get $1,000
- Short sale and buy another at lower price?
- Senate kills bill for judiciary "cram down"
- One family helped out of 400,000 proposed

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