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Reducing Stress in a Tighter Housing Market

Conditions for American homeowners have changed significantly in the past several months. For almost five years, the U.S. housing market experienced an incredible growth spurt, with previously unimagined home price appreciation, with some areas seeing percentage increases in the double digits. Homeowners and home buyers and speculators all jumped into the skyrocketing market with enthusiastic fervor. Some participants bought up homes in order to "flip" them for profit, while others just used the huge proceeds from their own home sales to buy much bigger houses. Many homeowners took out huge home equity or cash-out refinance loans for various projects or luxuries as their equity seemed to be increasing endlessly and at an ultra high-speed rate.

At the same time, as prices grew way out of the average American's budget, mortgage companies began relaxing their underwriting standards. Borrowers who previously would not have had a chance at getting into the market were offered all sorts of new loan programs with low introductory interest rates. Whereas borrowers were traditionally expected to have debt ratio under 36% of their income, during the housing boom some lenders took on home buyers who had as much as 50% debt-to-income ratios. Many borrowers received offers for much more funding than they could actually afford to repay. Lenders assumed when interest rates rose or things got tight, the borrowers could simply tap into their ever-increasing equity to refinance or pull out extra cash.

Now as the market has cooled and homeowners no longer have the eternal source of equity, many are feeling the pinch of owning larger, more costly homes. Others with adjustable rate mortgages have recently seen their rates, and subsequently their payments, go up. If you have found yourself among this crowd of people struggling to hang on to your mortgage and your home, consider some of the following tips.

Try cutting your spending. The housing boom may have afforded you the opportunity to easily live beyond your means, but now that your equity isn't providing a second income anymore, it may be time to tighten your belt. As unpleasant as it may be, you should consider cutting back on your monthly entertainment spending or try finding ways to conserve more energy around your house to cut your energy bills. Saving a couple extra hundred dollars a month might mean the difference of keeping your house!If need be, consider refinancing. Interest rates right now are low by historical standards, and especially if you currently have an adjustable rate mortgage, now might be a great time to get into a low fixed rate and save yourself some money.If things have really gotten bad for you, it may be time to sell. While the present market may seem less than ideal, you may still be able to sell for profit and come out on top. Even coming out with a very small profit will be better than going into foreclosure. Almost anything is better than going into foreclosure!

Also, do not be afraid to talk with your mortgage lender if you are really struggling to make your payments. He or she will most likely be willing to work out some sort of altered payment schedule to help you avoid default and foreclosure. The housing market is predicted to be on the path to recovery over the next two years, but until then you may have to exercise some restraint and patience as conditions stabilize.