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Don't Let Your Home Become the Next Empty House on the Block

Sub-prime mortgage woes dominate the news these days, but all the foreclosures are causing real problems for average Americans. Suburban neighborhoods are being emptied at record rates, leaving vacant, untended properties that lower the property values of surrounding homes.

Barbara Anderson, 59, lives in a suburb of one of the hardest hit U.S. cities – Cleveland, Ohio. She recently told a New York Times reporter that her block was full of residents just three years ago, but now that the housing market and economy are weaker only about half of the homes are filled. The vacant homes have been stripped of all sellable items by local scavengers, leaving the neighborhood looking run-down.

“It stifles you,” said Anderson. “It lowers the value and affects the kind of people who are willing to move here. I’m embarrassed to say I live here.”

According to Mark N. Wiseman, the director of an Ohio foreclosure prevention program, of Cleveland’s 84,000 single-family homes, perhaps 10,000 homes are now empty. This is a result of the more than 15,000 foreclosures last year in the city and its 58 suburbs.

While the Cleveland examples exhibit some of the extremes of the housing slump, many cities around the country have experienced the same problem to some degree. The problem began when mortgage lenders began loosening their lender standards several years ago to help homebuyers take advantage of the housing boom. Sub-prime, or poor credit, borrowers found loans especially easy to come by, as lenders offered interest-only and pay option ARMs with little or no proof of income or assets.

During the plenty of the housing boom, home appreciation grew fast enough to help borrowers refinance when their adjustable rate loans started adjusting. Troubled homeowners could also easily sell their homes in the red hot market. Today though, sales have slowed and home prices have stagnated or even dropped, leaving borrowers with little equity to bargain with.

Another major problem appears to be a lack of understanding on the part of sub-prime borrowers. A surprising number of borrowers do not even know what type of loan they have. This creates big trouble when the initial low interest rate first adjusts for those with adjustable rate mortgages. They experience serious “payment shock” when they are suddenly required to pay several hundred dollars more each month, having not prepared their finances for the jump.

Whether you are a sub-prime borrower or not, if you do not know what type of loan you have or do not understand the terms, now is the time to find out! If you do have an adjustable rate mortgage, you need to find out when your fixed rate period will and determine if you will be able to afford the higher payments.

If you are worried about being able to keep up, there are a few things you can do. First, you may be able to refinance into a fixed rate loan. Interest rates are still low by historical standards and the security of having the same payment every month until the end of the loan will give you a lot of comfort.

If your credit is really bad or you cannot refinance for other reasons, you may simply have to try to sell your home to avoid defaulting on your loan.

You can also contact your lender and inform him of your concerns. He may be willing to work out some alternate payment terms to help you sidestep foreclosure. The key is to act now, get the details of your loan, and prepare for any brewing mortgage trouble, in order to avoid losing your home and creating one more empty house on the block!