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Foreclosure-Proof Mortgage Loan Tactics

After several years of looser mortgage lending standards, the truth is starting to come out: many homebuyers got into houses and loans that they truly couldn’t afford. The result is that foreclosures rates have been rising at alarming paces, especially among subprime or poor credit borrowers. Concern over the rise in foreclosures has reached the highest levels of regulators, as the Federal Reserve and its affiliate groups have created new guidelines to lenders, asking them to use stricter underwriting standards in their loans. If you are considering getting into a home soon, there are few things you can (and should) do to insure yourself against foreclosure before the mortgage loan even closes. Consider the following tips as you prepare to buy a home.

First, realize that just because your lender qualifies you for a certain amount it does not mean that you can truly and comfortably afford to borrow that much. This is especially true when you apply for an adjustable rate mortgage (ARM.) These loans give you a low fixed rate for an initial period of time, maybe one, three, five, or seven years. Thereafter your rate is subject to change, being tied to any one of a number of market indices. This means that there is a great potential for your interest rate to adjust upward, creating a higher monthly payment for you.

The trouble is often that mortgage lenders qualify borrowers for a certain loan amount based on that initial fixed rate, which may be the lowest the rate will ever be. They do not always calculate whether or not you would be able to afford the loan if the interest rate increases. While government regulators have issued new guidelines calling for lenders to qualify borrowers at the highest rate they would possibly face, at this point the new rules are just guidelines and you may face a lender who does not comply with the regulations.

Take it upon yourself to ask your lender to calculate for you how much your monthly payments would be based on several different interest rates. You should especially consider how high your payment could be if your rate reaches its cap; this represents the highest payment you might face. At that point, ask yourself if you could reasonably afford to make that payment for a while. If the answer is yes, you are probably not in any danger of ever foreclosing. If the answer is no, reconsider the loan amount you have applied for and think about decreasing the amount or going with a fixed rate loan.

Another thing to consider is highly connected with the last point: bigger is not always better. You do not have to try to buy the biggest, most expensive house you can find. You could likely be just as happy and comfortable in a less expensive house and you would not be stretching your financial resources so thin. Several years ago, when real estate markets were booming in many parts of the country and home price appreciation was accelerating wildly, buyers tended to go for the biggest and most expensive homes they could qualify for, banking on the fact that their home prices would just keep rising at that astronomical rate, giving them quick equity to help pay their bills. Now that the markets have cooled and even stagnated in some places, equity is not so readily available and many homeowners are finding themselves with out their anticipated means of covering the mortgage. Try to find a house that will provide you with the comfort and space you need, not necessarily as much as you want. This will make it easier to live within your means and not have to devote every spare penny towards your mortgage each month and hopefully saving you from foreclosure in the long run!

The bottom line is to take personal responsibility for your mortgage choices. Your lender may not be acting in your best interest, or may not fully understand your financial situation. You know what you can handle, so don’t let anyone talk you into anything that would force you to cross that threshold and possibly lead to the loss of your home down the road!