

**Pay Option ARMs resetting in 2007: Millions of US Homeowners will be affected**  
**Real Estate Broker/Agents can help by specializing in loss mitigation**  
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January 10, 2007 - Drop a pebble into a pond and you can watch the small ripples move out from that point. Drop a larger rock into the same pond and you can expect larger ripples. In the real estate industry, someone is backing a dump truck of boulders up to the pond and is just about to tip them in.

Last October of 2006, RealtyTrac.com reported that 112,210 homes entered some stage of foreclosure across the country in September. This is up 63% from the same month last year. This is the second month in a row that this over-110,000-foreclosures threshold was breached.

What's causing the problem? Although there are several possible causes, from a slowing economy to the flattening of home values to mortgage fraud, the biggest problem is Pay Option Adjustable Rate Mortgages.

Just a couple years ago, to help increase sales, mortgage lenders offered ARM teaser rates of 1% to 2% to get people in the door and signing on the dotted line. Eager to save money on their mortgage payments and perhaps not fully understanding the consequences, customers jumped to these rates like children to candy. First time buyers were thrilled to get a deal and just pay the PTI of PITI. Homeowners switched lenders to take advantage of the lower rates. It was a gold rush.

But every gold rush comes to an end and this one is no different. It is two years later and many of those once-attractive ARM teaser rates are resetting. The reset is proving to be significant, climbing as high as 6% from the once low rate. This knocks the average loan payment out of the ballpark for many people who were happy with a lower rate.

Those ripples are starting. The *St. Paul Pioneer Press* on September 24<sup>th</sup> reported, "A wave of ARM resets is upon us. Nationally, \$500 billion worth of ARMs will reset this year, affecting millions of families, according to Freddie Mac and First American Loan Performance, a San Francisco mortgage tracker."

But that's not all; it's going to get worse: The same article goes on to report, "Next year — the projected peak of the wave — nearly \$700 billion worth of mortgages will reset, followed by just under \$600 billion in ARMs in 2008."

The jury is out as to whether or not homeowners knew about the effect this would have. Lenders say the salespeople were clear in their pitches. Homeowners say they didn't understand the complex idea of an adjustable rate mortgage. Some say "buyer beware" and others say "seller, be fair." Everyone seems to be blaming everyone else.

No matter who is to blame, the result is the same: people once lived and budgeted for a mortgage at one rate and now that rate has changed. They lived with a sense of immediacy, the feeling that what's happening now will continue indefinitely. This is the same feeling that thrived in the

stock market in the weeks and months before the tech bubble burst. They budgeted for the lower rate and found places to spend their “found” money.

Now rates are going up dramatically and that once-found money is ear-marked for other purposes. Unlike inflation, where pay is likely to rise in rhythm to increased costs, this is sudden... and proving to be cataclysmic.

Foreclosures are growing at an unbelievable rate. This will have some profound effects on the market: Housing prices will drop as hundreds of thousands of motivated sellers put their homes on the market. Mortgage loan companies will be stretched to the max with additional workloads in processing foreclosures. Real estate professionals will enter a rapidly expanding buyers’ market... without a lot of buyers. Local, state, and national economies will shudder as evictions and bankruptcies abound and lenders get what they can for homes that they now own.

The effects will be profound, far-reaching, and expensive.

It couldn’t happen at a worse time. The economy is already slumping and it needs people to spend money in order to keep it breathing. When people sense financial danger, they put their money under their mattress, which is the worse possible thing to do.

Additionally, in the next couple years, the first wave of baby boomers will begin to retire. This massive, wealthy demographic, having just come through the empty-nest phase, could be looking to sell their homes and enjoy smaller homes, cruise vacations, and warm retirements. We need a tight market to keep this impending house flood from happening but now we’ve been saddled with millions of potential foreclosures to compound the problem.

So what can real estate professionals do about it? Is this something that should send you under your bed in the hopes that it blows over and we all come out unscathed?

A proactive approach is best, coupled with a dedication to a market that seems (from the outsiders’ view) to be a high financial risk. Realize that, in reality, the people facing foreclosure are not necessarily a credit risk but rather have good wages and a positive financial outlook but have just experienced a higher-than-anticipated and higher-than-manageable reset in their regular mortgage payments.

Understand that this is a huge market and they are motivated. Those two words should ring the bell of opportunity in the mind of every real estate professional. Here’s what you want to do:

The first step is positioning: You’ll want to market yourself as a short sale, foreclosure, and loss mitigation expert. You likely already have a handle on some aspects of foreclosure and bankruptcy law as it pertains to homeownership but are you at the “expert level” that your prospects need to help them make the right decision?

The second step is education: Make sure you are well-versed in the various loss mitigation strategies like loan modification, special forbearance, and other short sale strategies. Use resources at [www.realestateproguides.com](http://www.realestateproguides.com) to educate yourself and provide your prospects with

valuable information at [www.shortsalerelief.com](http://www.shortsalerelief.com) to help them understand their situation and inform their choices.

The third step is to start helping people! As a real estate professional you are already familiar with the concept of consultative selling. This is very similar but requires an even softer touch as people are embarrassed about being in a financially constrained situation.

These teaser rates are causing large ripples in the real estate industry and the economy in general. It's troubling to think about the future challenges we'll see. But it doesn't mean that business necessarily has to slow down for you. Become a short sale expert and enjoy a large, growing, and highly motivated market.

If you are a licensed Real Estate Broker/Agent, equip yourself with the knowledge needed to specialize in Short Sale transactions, Broker Price Opinions and REO (real estate owned) properties with training programs and home-study tutorials at [www.RealEstateProGuides.com](http://www.RealEstateProGuides.com)

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