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Seeking help when home ownership becomes a crisis

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(Editor's note: This is the second of three stories looking at the impact of home foreclosures on Petaluma residents.)

Short sale, mortgage default, foreclosure, deed-in-lieu, strategic default, loan modifications. These are terms in the new vocabulary of home ownership. And for those homeowners who are experiencing financial hardships after a lifetime of making sound financial decisions, these words can be very scary.

"Homeowners in the demographic that we are seeing the most are pretty smart folks," says Jami Walsh, a counselor in the Foreclosure Counseling Center at Catholic Charities in Santa Rosa. "However, when it comes to lending and finance of their home if things are not going well, and with all the misinformation out there, if they try to handle it on their own, it is an overwhelming experience to try to navigate this process."

Walsh says that her office is mainly seeing middle-class, educated, experienced, long-term home owners with lots of savings who started experiencing issues in 2007.

"They maintained things through their financial reserves with the optimism that things were going to get better," she says "But, four or five years later, things are not better and they have used up their savings."

Jeff Mayne, president of Excel Mortgage Solutions and Sonoma Equity Lending, has been in the mortgage lending business since 1987. He says it helps if the homeowner takes a step back and acknowledges that the situation they're in is the American dream stripped away.

"It is normal to go through a series of emotions of grief, denial, anger and fear and to finally accept that this place is not my home, it is a place to live, a dwelling," he says.

Getting help at the first sign of financial difficulty can make a big difference, says Walsh. "If someone gets laid off a job, there are programs out there to help them pay their mortgage. People should come in to see us at the first hint of trouble. They will have many more options available to them if they do."

But fear and bad information are out there — some of it handed out by the lenders themselves as when homeowners hear from their banks that they cannot get help unless they stop paying their mortgages. "If you can afford the payment, don't stop paying," says Walsh. "Come in to see us and we will help you decide the best course of action, but don't stop paying."

Mayne agrees. "It is reckless to stop paying your mortgage without a plan," he says. "Also, preservation of your credit is very important. Understand that there is

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something beyond this crisis like buying a car or buying another home, so you will need good credit.”

There are several ways a homeowner can deal with a home that is no longer affordable. First, as Walsh mentioned, there are state and federal programs, for those qualified, that provide help toward mortgage payments. Then there are loan modification programs whose goal is to make the monthly payment more affordable. And for many homeowners, this solution initially seems like the best one.

“However, for many people, loan modifications don’t really address the problem,” says Clark Rosen, broker associate at Coldwell Banker Residential Brokerage. “It may stall the inevitable that they are going to be underwater (meaning that the mortgage is larger than what the house is worth) at some point. Walsh says that many people come to her believing that they would like a loan modification only to decide that it is not in their long-term best interest.

The other options involve the homeowner exiting the property through either a short sale, meaning the property is sold for less than the mortgage owed, a deed in lieu, meaning the homeowner gives the deed back to the lender or finally foreclosure, meaning the bank has the right to sell the house and the homeowner no longer has any rights.

“We like to see short sales,” says Walsh, “They avoid foreclosure.” Rosen says that his clients also prefer short sales. “The homeowner wants to make the situation better and wants the bank to come out of the deal with something,” he says.

Unfortunately, as with each option, even this scenario is plagued with frustration and difficulties. The banks are not prepared for the volume of short sales and there are often multiple lenders involved in the approval and decision-making process, says Rosen.

“I’ve been involved in dozens of short sales and it is incredibly frustrating for the homeowner who feels an obligation to the bank and does the right thing only to have the bank let several deals fall away before the short sale closes.”

For many, giving the house back to the lender, either through foreclosure or deed in lieu, may be the only options. And there is a relief at the end of the process. The homeowners are then able to start a new chapter of their lives.

With the September Bureau of Labor Statistics employer survey indicating a 40.5-week average duration of unemployment — a 10 percent increase since the start of 2011 — it is likely that more Petalumans will be faced with difficult housing choices.

No matter which path is taken, dealing with a home one can no longer afford is complicated and Walsh says getting help is best way to proceed. “Even if the homeowner has already received a notice of foreclosure, we may still be able to help,” she says. “Come in to see us.”

If you are experiencing difficulties, there is free help out there. Call Catholic Charities Foreclosure Counseling Center (this program is non-denominational) at 575-0215 or the Homeowners’ Hope Hotline: 888-995-HOPE. Also Saturday Oct. 22, Nov. 12 and Dec. 10, Catholic Charities will be holding foreclosure prevention workshops in Santa Rosa. Call 575-0215 to reserve a free seat.

Next week: What happens to tenants when their landlord loses the home they are living in to foreclosure.

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