

Loan Resets Projected to Cause Mortgage Crisis in 2010

12/11/2009 BY: BRITTANY DUNN

As many exotic adjustable rate mortgages (ARMs) are set to recast in 2010, the **Consumer Mortgage Audit Center** (CMAC) is projecting a mortgage crisis in 2010 as large as the subprime.



“We’ve spoken to Florida attorneys who sit at the forefront of the U.S. foreclosure crisis and have learned that 53 percent expect recasting ARMs to present a mortgage crisis as large as subprime and 61 percent expect to work on more loan modifications in 2010 than they did in 2009,” said Sylvia Alayon, VP of operations for CMAC “The New Year is going to hold very rude awakenings for some homeowners, but there are things you can do to analyze your situation and get help if you need it.”

Option ARMs enable borrowers to make monthly payments that are interest and principal, interest only, or just part of the interest due. After months and years of paying less than their full monthly payment of both interest and principal, many homeowners accumulate negative amortization. This means the amount of interest due on a loan becomes higher than the amount of the actual loan itself. As the majority of ARMs begin to recast in early 2010, housing bills will inflate, and many homeowners will be forced to repay the negative amortized balances.

“Recasting will undoubtedly lead to another wave of foreclosures as payments begin to double and triple,” Alayon said. “When principal balances go up and house values

continue to plummet, refinancing will no longer be an option for homeowners in negative amortization.”

According to Alayon, only a few option ARMS in existence have been modified, but she believes many more homeowners will rush to modify their loans as they slip closer to negative amortization. Homeowners who act now to modify exotic mortgages may be saved from negative amortization and eventually foreclosure, Alayon said.

“Depending on each homeowner’s unique financial situation, we’ve seen everything from lenders modifying mortgages lower to make them affordable again to Fannie Mae allowing homeowners facing foreclosure to shift from homeownership to home rental,” said Alayon. “Options are out there, but you have to do some work to get to them.”

The data used to create CMAC’s prediction of a major mortgage crisis in 2010 came from the responses of 150 Florida Bar Association attorneys from November 3 to November 6, 2009, in a survey sponsored by CMAC. Responding attorneys specialized in real estate, general practice, civil law, and foreclosure defense.

As a due diligence and consulting company, CMAC specializes in the field of mortgage forensic research and analysis. The company boasts a specialized team of mortgage experts who are also members of the **American College of Forensic Examiners** and represent a combined experience of over 80 years in mortgage finance and law.

<http://www.dsnews.com/articles/loan-resets-projected-to-cause-mortgage-crisis-in-2010-2009-12-11>