

If You Are Underwater but Can Afford the Mortgage Payment You Should Hang On

Anyone that can manage their payments should consider trying to hold on, even if the house value has dropped well below their purchase price. There are still a great many overextended homeowners and speculators who cannot possibly manage their payments, and for them trying to hold on until the market comes back is a foolish waste of time and resources. The market is not going to come back before they go under. However, for those who can make the payments, there emotional benefit of home ownership may be worth the financial hardship it entails.

When downpayment requirements were eliminated during the Great Housing Bubble, many people who are not in the habit of saving were suddenly able to purchase a home, albeit at a greatly inflated price. For people who do not have the habit of saving money, they will never come up with even a 3.5% downpayment to obtain an FHA loan much less a 20% downpayment like everyone else will need. The house they are in right now may be the only house they ever own in their lifetime. If they bail out, the new (and permanent) downpayment requirements will probably ensure they never own again.

Under these circumstances, even if they are upside-down on their mortgage, and even if it might make more sense financially to go back to renting, there is a strong emotional desire to own a home, and this may be their only chance to satisfy this emotion. Many of our decisions in life are not based purely on a basis of economics. Having children is not a great economic decision, but the love of family makes the economic sacrifices worthwhile. If satisfying the emotional desire to own a house is worth the sacrifice in terms of elevated household expenses, perhaps it is the proper decision for those owners on the margin to stay put. It is not the right financial decision, but perhaps it is the right life choice.

Here is more advice for the homeowners who are facing an exploding Option ARM. This will not save them from foreclosure, but it may provide a way for them to reenter the housing market at some future date. Freddie Mac changed their servicer guidelines and eliminated compensation to servicers who foreclose quickly. The effect of this change in incentives will be a longer foreclosure process once people stop making payments. This is where the advice comes in.

When owners with an Option ARM face their loan recast, there is little hope of affording the payment, so they should not try. What they should do is immediately start saving the amount of the payment they used to make on their mortgage. If the foreclosure process drags out a year or more, they could easily save the 3.5% necessary for a downpayment on an FHA loan. They may have to wait a while for their FICO scores to improve to qualify for the FHA loan, but when they do, they will already have saved their downpayment.

Will many people do this? Probably not. Many people will simply spend the money they should be saving and be no better off for not having a housing payment for an extended period of time, but for those that do, they have the opportunity to save and prepare for home ownership again.

Homeowners who are underwater but can afford their payments should stay in their homes. It may be their only chance to obtain home ownership. Homeowners who used exotic financing should stop making payments and save their payment money during the foreclosure process to prepare again for home ownership.

About the Author

[Lawrence Roberts](#) is the author of *The Great Housing Bubble: Why Did House Prices Fall?* Learn more and get FREE eBooks at:

<http://www.thegreathousingbubble.com/> Read the author's daily dispatches at The Irvine Housing Blog: <http://www.irvinehousingblog.com/> Visit [If You Are Underwater but Can Afford the Mortgage Payment You Should Hang On](#).

Source: <http://articleknowledgebase.com>