The Best Places to Seek Refinancing

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SUBPRIME BORROWERS ARE clearly the poster children of the housing crisis, but they aren't solely to blame. Now, many borrowers with relatively good credit are also faltering.

Much like subprime mortgage holders, many borrowers with Alt-A mortgages — loans that fall between subprime and prime mortgages — bought more home than they could afford. With private lenders tightening their requirements so that only those with high credit scores qualify, it's been extremely difficult for Alt-A borrowers (who often either have credit scores below 680 or limited documentation or both) to refinance and hold onto their homes.

According to First American CoreLogic, a mortgage data and analytics company, the percentage of borrowers holding Alt-A mortgages who were 60 days or more behind on their mortgage payments quadrupled year-over-year to 13.6% in June. Meanwhile, Alt-A foreclosures increased from 1.8% to 7.9%, a whopping 339% increase. (Overall, foreclosure filings are up 55% between July of this year and July 2007, according to RealtyTrac.com, an online marketplace for foreclosure properties.)

"We're in the eye of the storm, and I think it's going to get a lot worse" before it gets better, says Dave Muti, author of "Mortgages: What You Need to Know."

These defaults and foreclosures follow months of loose underwriting that occurred during the real estate boom. Often, Alt-A borrowers showed limited (or at times no) income- and asset-verifying documentation, says Muti. They could also carry a high debt-to-income (the portion of monthly gross income that pays monthly expenses) or loan-to-value ratios (the amount of a mortgage compared to the value of the property).

Now, these loose lending practices have come back to haunt many homeowners. But before concerned borrowers attempt to sell their home or, worse, walk away from it, they should consider these financing options.

Get on the phone

The worst decision you can make if you've fallen behind on your mortgage payments is to avoid the phone call from the company that's servicing your loan, says Bob Pratte, a mortgage banking attorney and partner at DLA PIPER law firm. In many situations, he says, the mortgage servicer would prefer to figure out a way to keep you in your home than to deal with a foreclosure. They can establish special repayment programs, like reducing your monthly payments, or waive late fees.

Refinance through FHASecure

One of the most accessible refinancing solutions is to seek an FHASecure mortgage.

These mortgages originate at a private lender and are insured against default by the Federal Housing Administration (FHA). To qualify, borrowers with non-FHA fixed mortgages must have a history of keeping up with their payments. And under a recent extension by the FHA, those with non-FHA adjustable-rate mortgages (ARMs) who've missed no more than three monthly mortgage payments over the previous 12 months are also eligible, says Bill Glavin, special assistant to the FHA commissioner. This flexibility comes at a small price, however: Typically, FHA-insured mortgages may carry an extra half percent in interest.

To determine a borrower's eligibility, the FHA reviews their credit score, employment history and loan-to-value ratio. Also, borrowers will often need at least 3% equity in their home. "There isn't any one thing that may disqualify somebody," says Glavin. To apply for FHASecure, call 800-225-5342.

Tap into the HOPE for Homeowners Act

The HOPE for Homeowners Act of 2008, which was passed as part of a larger housing legislation last month, aims to help borrowers who have already defaulted on their mortgages.

If a borrower owes more money on the home than the home is actually worth (this is referred to as being "underwater"), a lender may refinance the loan into a 30-year fixed-rate mortgage (that the FHA will insure) that brings the value of the mortgage closer to the home's market value. (The mortgage can't be worth more than 90% of the home's value.)

The program begins Oct. 1 and lasts for three years. Mortgages will max out at $550,440. To qualify, the original mortgage must have originated no later than Jan. 1, 2008, the borrower's monthly mortgage debt must be at least 31% of their monthly income, and they can only own a primary residence.

One huge caveat (among several to consider): Lender participation is voluntary, so not every lender will agree to forgive a borrower's outstanding debt.

Try private lenders

Given that lenders only have eyes for borrowers with high credit scores (currently at least 680, according to Muti), seeking refinancing through a private lender may seem like a fool's errand. But in some cases, it just may work.

"If someone is worried that they will default on their Alt-A loan, then they probably would not qualify for a new loan," says Don Martin, a fee-only certified financial planner and former mortgage lender. However, someone who's managed to improve their credit standing still has a shot, says Suzanne Bach, senior vice president at New York-based Guardhill Financial, a mortgage company.

Just expect tougher terms and fewer offers. Lenders now require a lower total debt-to-income ratio of no more than 40%, compared to the 60% that was previously accepted, says Muti. And instead of 100% financing, the most homeowners can typically get is about 80%, says Dave Erickson, president of the Washington Association of Mortgage Brokers.

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