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After mortgage meltdown, more homeowners trying to pay down debt

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Home buyers today are starting to sound a little bit more like their parents.

As lenders have clamped down and price appreciation has waned, perceptions about homeownership have changed - and so have the kinds of loans that borrowers are seeking, mortgage brokers said.

New products, such as a loan called the Home Ownership Accelerator that is designed to help borrowers pay down debt more quickly, are becoming popular, as the adjustable-rate mortgages that dominated the market for several years are falling out of favor, lenders and real estate agents say.

"There is a shifting perception about what owning a house means," said Catharine Bramkamp, an agent with Century 21 in Petaluma. "For the last five years, it was about buying a home and then turning around as quickly as possible and using it as a piggy bank. Now, people who are buying houses have more traditional goals, such as paying off their loans."

Banks also report increased interest in products including 40-year mortgages, which provide borrowers with lower monthly payments than traditional 30-year loans, with less risk than the adjustable-rate mortgages.

The Home Ownership Accelerator, a mortgage modeled after an Australian program that has been around since the mid-1990s, has garnered interest from homeowners such as Tim Robison, a 39-year-old information technology manager.

"My goal has always been to retire by the time I was 50," Robison said. "The only way to really do that is to have no debt."

The Danville resident, who bought a four-bedroom home with his wife two years ago, recently refinanced his mortgage to help him achieve that goal by taking out such a loan.

After hearing an advertisement on the radio for the loan, offered by San Ramon's CMG Mortgage, Robison decided to refinance the \$650,000 mortgage he had on the \$895,000 home.

Since taking out the loan in February, Robison says he's reduced his debt by almost \$50,000.

CMG markets the Home Ownership Accelerator, a term it has trademarked, although mortgage brokers say other lenders offer similar programs.

When the housing market was strong and mortgage money was easy to come by, the loan was slow to catch on.

But mortgage brokers and real estate agents say they expect that to change as stagnating home prices and the credit crunch have caused homeowners to reassess their priorities. The CMG loan is designed to help homeowners pay off their debt more quickly by tying together a homeowner's mortgage and checking account, according to Doug Nesbit, a vice president at CMG.

It works like this: Each time borrowers receive a paycheck, instead of depositing it into their bank accounts, the money is put into a special account that is tied to the mortgage. As money is added to the account, the balance on the loan falls, allowing the borrower to save money on interest payments over the 30-year life of the loan.

At the same time, any other expense paid out of the account increases the loan's balance.

Still, Nesbit says that savings can add up to hundreds of thousands of dollars and borrowers can pay their loans off much faster.

Robison says he hopes to own his home free and clear in just 10 years.

"I like the loan because it gives me flexibility while still allowing me to pay it down as much and as fast as humanly possible," he said.

Andrew Hutchins, a mortgage consultant for Golden Gate Financial in Petaluma, just received the green light from CMG to beginning selling the Home Ownership Accelerator mortgage and said he thinks this type of loan has huge appeal.

"This approach works on paying down your debt with as little interest as possible," Hutchins said. "I think that will appeal to a lot of Baby Boomers - and I fall into this same group - as we're looking to have our loans paid up when we retire."

Still, mortgage industry experts caution that the loan, which has an adjustable rate, isn't for everyone.

"It's a great loan for certain specific borrowers," said Ed Craine, chief executive officer of Smith-Craine Finance, a San Francisco mortgage lender and vice president of the California Association

of Mortgage Brokers. "It works well if you're a good saver with good, positive cash flow in your household."

Craine also said the adjustable component of the loan may be unappealing to many homeowners, as the tide has turned against such loans and fixed payments are once again in vogue.

Others in the industry stressed that the product is best for very disciplined borrowers.

"It's a way for people with lots of reserves and liquid assets to pay off their home and have a credit line," said Pete Ogilvie, president of the California Association of Mortgage Brokers. "It requires wise use of that credit line. It's not for people who just want to buy a house and need some way to be able to afford that."

For some of those borrowers, mortgage brokers said, a 40- or 50-year mortgage might work better.

Such mortgages offer the lower payments that allow buyers to enter the market, but present less risk - both to lenders and borrowers - than the teaser loans that have helped crash the mortgage market, Craine said.

While a borrower would wind up paying considerably more in interest to spread a loan out over 40 years, it might help buyers whose incomes aren't high enough to qualify for the monthly payments on a 30-year mortgage.

"Because prices are high here in the Bay Area, people are willing to ultimately pay more in the long run to qualify for a home," Craine said.

While high interest rates on the few 50-year loans that are available make them unattractive to most borrowers, Craine said that ultimately he expects to see an increase in the number of both 40- and 50-year loans offered.

"What I think will accelerate that is when the real estate market stabilizes and prices are up again," he said. "It's an affordability issue."

Ogilvie, the president of the California mortgage group, agreed.

"It's a way to get a lower payment without the risk of a negatively amortizing loan," he said.

Wells Fargo, the nation's second-largest lender, is already seeing more interest in 40-year loans, although the bank doesn't offer any 50-year loans, said Chris Hammond, a vice president in its San Francisco offices.

"There are several advantages with it that homeowners are indicating," he said. "The 40-year term is more affordable and allows borrowers to meet their personal financial goals with home ownership. It doesn't create a payment-shock the way an option-ARM or an interest-only or another kind of teaser product would."

So far, Wells Fargo hasn't introduced any loans in response to the turmoil in the credit markets, Hammond said.

But he stressed that even as lenders have become pickier, would-be borrowers with good credit, steady income and a reasonable down payment are still able to qualify for loans with good interest rates.

"Our doors are open," Hammond said. "We're in business and our sign is on."

Hammond and Craine also said they've seen increased interest in conventional 30-year loans.

"It's much more traditional lending like we used to see before all these niche, low-down-payment products," said Craine. "The most striking thing is what we're not seeing. We're not seeing a lot of people come in with low down payments, who can't document their income. Word has gotten out that those loans are hard to come by."

Many loans for borrowers with poor or little credit history have simply disappeared, according to Craine and others in the industry.

"What's gone is the excess layering of risk," said Ogilvie, the president of the California mortgage group.

"Lenders were competing with each other by offering lower and lower thresholds for qualification. You ended up with loans to people with very low credit scores, who didn't handle credit well. Those loans are gone, and thank goodness."

The turmoil in the mortgage industry has chased some brokers into different lines of business, said Golden Gate Financial's Hutchins.

"The industry is still going through a contraction," he said. "Loan officers are getting part-time jobs or going into other fields. There's not enough business to support the number of loan officers or mortgages brokers that we had six months or a year ago."

And for at least one of those mortgage brokers, who saw his subprime business dry up, the Home Ownership Accelerator just may be the answer.

Bart Bruner, who was until recently a self-employed loan representative, said he's agreed to take a new position at CMG.

He sought the job because he's a strong believer in the product and even helped put his parents into such a loan.

"Subprime is a dead industry," he said. "I decided that if I liked the loan product so much, I should go get a job with CMG and that's what I did. I think it's the loan of the future."

Pay as you go

The Home Ownership Accelerator loan marries the mortgage to a checking account. The balance goes down when funds are deposited and up when checks are written. Interest is charged on the current loan balance. Here are details:

Loan type: Adjustable-rate line of credit.

Adjustment period: Interest rate changes monthly based on the somewhat volatile London interbank offered rate (LIBOR) index.

Length of loan: 30 years

Rate cap: Varies by loan, but typically 5 percent above the start rate.

Minimum credit line: \$100,000

Maximum credit line: \$2.5 million

Minimum down payment: 10 percent

Minimum credit score: 680

More information: www.homeownershipaccelerator.com.

Source: CMG Mortgage

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