

Tips to Coping with the Volatile Mortgage Market

By J. Lennox Scott

Hardly a day goes by when a mortgage company isn't making headlines for all the wrong reasons. The mortgage market is experiencing unprecedented turmoil which to date has caused the closure of more than 112 major lenders throughout the United States. Last week, American Home Mortgage became one of the latest casualties of the credit crisis, leaving nearly \$800 million in unclosed loans and tens of thousands of buyers without financing. This is no longer just a subprime lending issue, but rather is far broader and more serious. The volatility of the mortgage market is causing many homebuyers, sellers, and homeowners to wonder how this situation impacts them and their homeownership needs. The following are some tips to keep in mind.

The meltdown of the mortgage market is a sobering reminder that consumers should always work with a reputable lender who has a proven track record with legitimate mortgage products. Just as important as this is the need to get pre-approved early and often by your lender. Getting pre-approved early in the process helps you and your agent understand how much home you can afford. Furthermore, a pre-approval letter demonstrates intent to sellers who may be receiving offers from multiple buyers. In past years, buyers would rarely have to go through the pre-approval process more than once, but tighter guidelines are making it harder to approve borrowers, so they must stay in continuous contact with their agent and loan officer regarding the status of their loan. As we saw with American Home Mortgage, the volatility of the market can hit at any time—even in the midst of a transaction; therefore there may be a need to pre-qualify more than once during the span of your home search.

Also critical during this time is constant and consistent communication with both your agent and your lender. You should also expect your agent to be in direct communication with your lender as it is your agent's responsibility to serve as your trusted advisor throughout all aspects of the transaction. The mortgage market is changing rapidly, so regular communication between all parties will help to avoid delays or lost deals.

But it's not all gloom and doom; there are still ample opportunities for homeownership despite the volatility of the mortgage market. Interest rates are up slightly from their historic low, but they are still at a multi-year low. Furthermore, there are still several mortgage products available through Fannie Mae and Freddie Mac for first time buyers and buyers with lower credit who may have previously been targeted for subprime loans.

For home sellers, it's important to remember that tightening credit standards and fewer mortgage products will continue to lead to reducing the pool of qualified buyers. This fact, along with higher inventory levels, would suggest that some sellers can no longer afford to be as selective as they may have been in previous months and years. Sellers must be open to reducing their listing price and accepting an offer that may be less than what they're asking. The key is to look to your real estate agent to guide you through this process as every market is local and has its own unique conditions. More than ever, this is a time when you want to have a trusted, full-service real estate professional on your side.

If you are a homeowner who has an adjustable rate mortgage that is scheduled to reset during the next 12 months, you should strongly consider refinancing now; even if it results in a pre-payment penalty. The volatility of the mortgage market is making it difficult to predict what is going to happen in the coming months; therefore it could be in your best interest to refinance to a fixed-

rate mortgage before your payments spike. Consult your mortgage professional about the best course of action; if you do not have a mortgage professional, ask your real estate agent for a referral.

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