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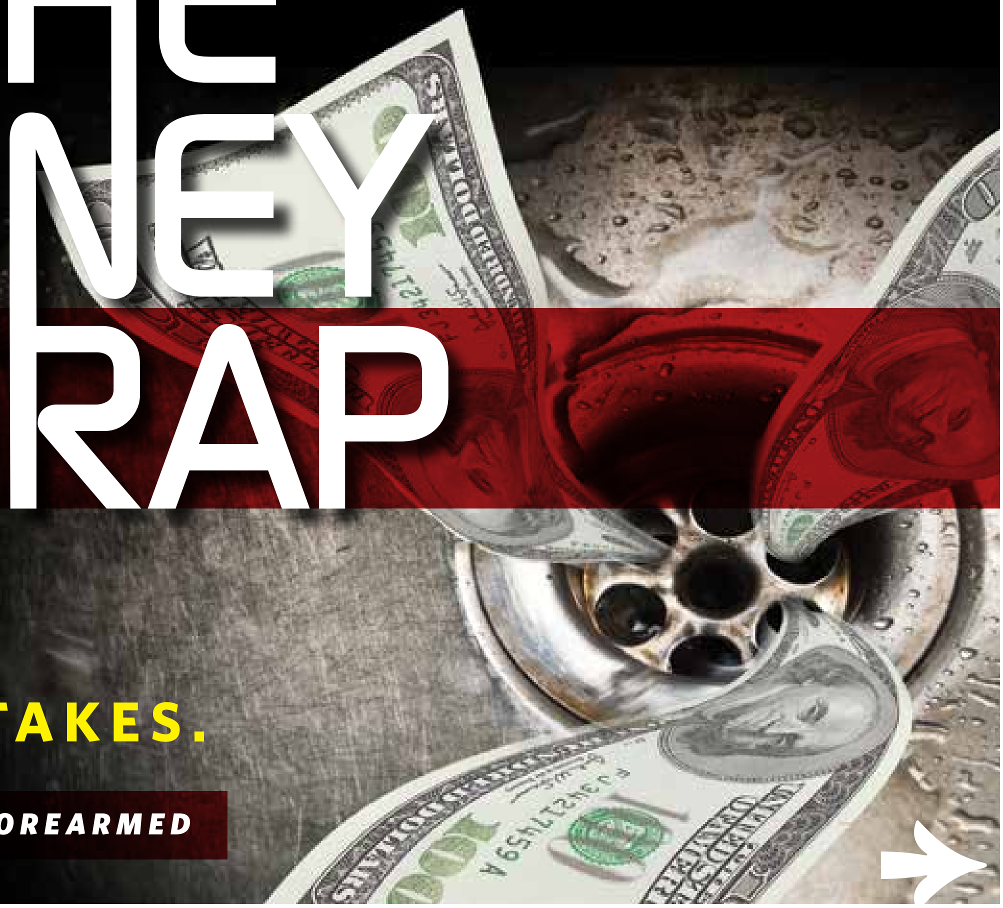

REAL PEOPLE.

REAL MONEY.

REAL MISTAKES.

FOREWARNED IS FOREARMED

Buying a house: In Western culture, it’s a rite of passage. Nothing says “Welcome to Adulthood” like taking on a nice, hefty 30-year mortgage. But what happens when that “home sweet home” turns sour? For some, meeting the monthly mortgage payments becomes not a badge of responsibility fulfilled but the bane of their existence, leading to serious debt and even foreclosure.

Foreclosed Dreams

[THE PLAYERS]

Names: Moshe and Miriam Abraham
No. of Children: 8
Ages: 53 and 51
Place of Residence: Long Island, New York

[THE LURE]

Your Dream House!
Everything you've ever wanted in a home.
All it takes is a small down payment and a nice, big mortgage.
Now sign on the dotted line…

[THE BACKGROUND]

Over the years, the mortgage industry has developed solid formulas for assessing an applicant's ability to pay back a homeowner's loan. According to the industry's standard, an applicant's debt-to-income ratio — the amount of debt he shoulders, including car payments, student loans, and credit card balances, against the amount he earns — should be under 40% in order for him to qualify for a mortgage. The problem, says mortgage expert Ann Zeilingold, branch manager and vice president of FM Home Loans in Pomona, New York, is that these qualification formulas don't work for the typical *frum* family.

"Most families in our community carry a huge debt load, what with tuition payments and the extra expenses of the religious lifestyle. If we factored in all of this additional debt, there is no way they would qualify for a mortgage."

At the same time, as she tells her clients, they have no alternative. People need a place to live, and, expensive as the housing market is in the Tristate area, rental prices are just as high.

"It doesn't make sense to pay almost as much in rent as they would pay for a monthly mortgage, and be left with nothing at the end of the day," she commented. "Even without factoring in the additional costs of a normal *frum* lifestyle, they're often getting through by the skin of their teeth."

Despite this depressing reality, Zeilingold emphasizes that a couple can set themselves up for success by approaching their home-buying decision smartly. She counsels each couple who come to her office, guiding them to make a fiscally responsible decision.

"I once had a couple come to me for a mortgage. The wife had set her eyes on a $675,000 house — her 'dream home.' I pointed out that they only qualified for a mortgage on a $450,000 home. 'How will you pay this each month?' I asked. But the wife insisted this was what she needed, and if I wasn't willing to provide the mortgage, they'd go elsewhere. And they left. They would have needed to contort themselves into a pretzel to buy this house, getting a co-signer, etc. I have no idea if they got the loan in the end — all I know is that I couldn't, in good conscience, allow them to go through with this, even if it meant losing a client."

The wife in that case was clearly living in a strong state of denial. Sometimes, however, even with the best of intentions, things can go haywire. Whatever the causes, when a couple falls into a mortgage morass, the outcome is rarely pretty.

MOSHE'S NARRATIVE//

We were thrilled when we bought our house, about ten years ago. It was in the neighborhood we wanted, on a street with lots of *frum* families, and had a great backyard. All the members of our large brood — both the older and younger sets — were thrilled with the extra space.

It also came with a $2,800 monthly mortgage, plus property taxes and insurance. I chose *not* to escrow my property taxes with my mortgage payments, because my construction contracting business was doing nicely, and, though we just barely got approval for our homeowner's loan, I was confident I wouldn't have any problem making the monthly payment. Although my business followed cycles with busy seasons and occasional lean months, I was confident that when I had a month with a higher cash flow, I would put it aside to pay the big annual bill, when it came.

This was in 2007. In 2008, the real estate bubble burst. And suddenly, everything changed.

My once-reliable income was dissolving fast, as my construction business took a huge hit. It was a crazy time in my life, in more ways than one. At the same time that the economy's meltdown happened, my oldest daughter got engaged. Baruch Hashem for simchahs, but now, on top of everything else, we had wedding expenses to contend with.

I, who had always considered myself quite the responsible breadwinner, who had never made a late payment on a mortgage or even a credit card bill in my life, suddenly found myself desperately strapped for cash and hard-pressed to meet my monthly obligations.

But it was my failure to put the tax and insurance money in escrow that ended up doing me in.

By the start of the following year, the property tax bill arrived — a whopping $13,000. And though I'd been so confident that the money would be there when needed, I'd fallen prey to that human failing of believing we are in control. I should have put the money aside each month, but I hadn't, and now that mistake would come back to haunt me.

Home-Buying Smarts: How to Set Yourself Up for Mortgage-Paying Success

While adverse life events like illness or job loss are unforeseeable, there are some strategies a couple can employ when applying for a mortgage that will enable them to stick it out for the life of the loan, says Ann Zeilingold.

Do a Reality Check — Yes, if you're looking to buy in an established *frum* neighborhood, chances are you're going to have to stretch your budget, but that doesn't mean you should be buying the fanciest house in town. If a standard, simple house in the community is going for between $400,000 and $500,000, don't go for the $800,000 mansion and delude yourself that "everything will work out" with a bigger mortgage.

Expose the Hidden Expenses — Home expenses involve more than just mortgage and taxes. In order to get a sense of how much money you can really afford to budget toward your mortgage, take a good look at how the house is constructed, and what that will mean for utility bills or repairs. Older houses are not as energy efficient; older windows may let in more drafts, causing heating bills to spike. Zeilingold recommends asking the current owners for copies of their utility bills, to get a realistic sense of how much you should be budgeting for these expenses.

Take a Hard Look at Your Hard Cash — While a mortgage broker will calculate your debt-to-income ratio based on your salaries, only you know what your true income is. Do you get monthly gifts from your parents? Extra income from side jobs? It's safer to take on a larger mortgage, even if you technically barely qualify, if you know you can rely on extra resources.

Budget, Budget, Budget — Yes, it's that B-word. How much can you actually afford to pay for a mortgage? Well, the only way to know that is to have a clear, brutally realistic sense of your monthly income and expenses. Many people, alas, do not have a clue. It's a wise idea to take good inventory of your monthly budget before stepping into the mortgage broker's office.

Save for That Rainy Day — Zeilingold always emphasizes to her clients the importance of putting aside money to save for life's inevitable glitches. "People always want to know how they can pay down the mortgage faster," she says. "I tell them, no, before you talk about making extra payments, first put aside enough money for three months' worth of payments. Once you've done that, make it six months. Then nine months. Ideally, you should have a year's worth of savings set aside before you think about paying off the loan faster, or even investing in a 401(k)." Most foreclosures happen because when hard times hit, the owners have no savings cushion to fall back on.

Don't Ignore Looming Debt — If you see that, despite your best efforts, you aren't able to make your mortgage payment, it's essential not to simply ignore the bill. Once a homeowner misses four payments, the house goes into foreclosure, and the bank will begin legal proceedings. You don't want to reach that point.

On the other hand, says Zeilingold, approaching the bank from the start and coming clean about your inability to pay can yield positive results. "I've seen banks agree to crazy things. They may reduce payments, or defer the principle payment — they have lots of creative ways to help you work it out. But the key is to ask."

Your credit may be adversely affected by this, she acknowledges. "But at least you'll still have a roof over your heads."

And, at the end of the day, all we really need is the security of that simple shelter. Because it's not the splendor of the structure but what we build inside its walls that make our houses into homes.

As my mortgage broker would later explain, in the US, a tax foreclosure supersedes a mortgage foreclosure. Here's how this works. If a homeowner does not pay his property taxes, even though he is paying his monthly mortgage, the local taxing authorities can nevertheless foreclose on his house. This leaves the mortgage company high and dry: the homeowner is in default, but now there is no collateral against the loan.

As this situation is clearly not in the best interest of the mortgage lenders, they themselves check to make sure that the property taxes are being paid when there is no escrow account. If they find an outstanding tax bill, they pay it in full, and pass this debt on to the homeowner.

This is what happened to us. Our lending bank noticed we had a nice, big unpaid property tax bill, and very kindly paid it on our behalf. They then notified us that we now had a $13,000 debt in our escrow account, and to pay it off, they would be tagging an extra $1,600 to our monthly mortgage payments.

Well, if scraping together $2,800 a month was hard, $4,400 was next to impossible. I was beside myself. I couldn't believe that I, who had always been so financially responsible, was actually about to default on a mortgage payment. But money was so scarce that I was facing the choice of paying either my office staff or my mortgage.

I confided my predicament to a friend, who advised me to explain my situation to my staff. "They'll understand these things happen; just tell them that you'll pay them a few weeks late this month."

But I couldn't bring myself to do that. Halachically, I knew, my obligation was to pay my workers first.

I tried approaching one of my family members for a loan. This family member had the money, I knew, but he was also a wise businessman, and he told me something I would never forget.

"Moish," he said. "We both know that this isn't a one-time thing. If I give you the money now, what will you do next month, when your next mortgage payment comes due? All that will happen is that you'll train yourself to rely on loans, and that isn't a healthy way to live."

Did the rejection hurt? I won't pretend that it wasn't hard to swallow at the time, with the desperation I was feeling, and especially after I'd humiliated myself by asking. Yet even on the spot, I was able to see the wisdom of his words, and over time I've come to appreciate them even more. He was dead right, my relative.

With no choice left, I missed a mortgage payment. And then another. And another. My debt was mounting, and I knew the story was drawing to its inevitable conclusion.

I lost my house. Our dream home, the one we'd envisioned raising our children in, welcoming grandchildren to, had gone up in a puff of smoke.

It sold for $375,000 in a short sale. What is a short sale? When a house's current market value is lower than the loan balance owed the bank, the bank will sometimes allow the homeowner who is in default to sell his house at this lower price, with the bank agreeing to accept that sum as a total loan payoff.

Short sales were popular during the years after the country's mortgage meltdown, when real estate values suddenly plummeted. It was viewed as a cleaner and nicer alternative to the messy foreclosure process, which involves courts, evictions, and literally dumping the contents of the house onto the lawn. I have a friend whose family went through a foreclosure when he was a child, and he says it was the most traumatic event of his childhood.

Luckily, my family was spared that indignity. But this one was bad enough.

Suddenly, I found myself not only homeless but with totally messed-up credit. Most mortgage lenders mandate that a borrower involved in a short sale must wait for a period of time — the shortest of which is three years — until he can take out a new mortgage. In the meantime, a total lifestyle overhaul was clearly warranted. But it wasn't easy. It was hard on me, and even harder on my wife.

We sought out a rental in a cheaper part of town, and came up with an excuse for our move — that it was closer to my elderly parents, who needed my help. When the lease for my wife's luxury car was up, I told her that she would have to downgrade now to a standard model. My wife was extremely embarrassed to be seen driving this car, when everyone knew what kind of vehicle she used to drive. While some might shake their heads at this, and say we should have been grateful that at least we could still afford a car and a place to live, lowering your standard of living is a humiliating process, especially if you're still living in the same community. I felt like such a failure.

I didn't know what to do with myself, but it was my financial advisor — of all people — who helped me put things in perspective.

"Your life and health have to come first," he said. "So, you lost your house and ruined your credit. It's just temporary. You'll get over it eventually. One day, you'll buy a new home. But if you had let yourself sink further into debt by borrowing to try to keep the house, you would have ended up ruining yourself completely."

Now, with the benefit of hindsight, I know this is true. I waited the requisite three years, and in the meantime, the economy began to recover, my business picked up once more, and now I bought myself a new house. The whole incident has been relegated to a bad memory.

But not entirely bad. Because I learned from it that it's possible to move on in life, and that making the right decisions even when they're hard is ultimately worth so much more than the fanciest home.