80/20 mortgage loan dilemma: How to avoid your second mortgage for life and save your home.

Everywhere I go I hear someone complaining about their house being worth nothing at all. They use the terms “underwater,” “worthless,” and “hopeless” to describe situations regarding their home. It is a tough time right now for folks who purchase a home between the years of 2004-2007 and are trying to keep these homes.

Let us all face it; the prices at the time were just plain “CRAZY.” We all fell for it. We did not care that the prices were ridiculous rather we only cared about getting a home. Some of us, it was probably the only time we could get a home. If traditional lending practices would have applied, a home loan simply would not be available to purchase a home. The new trend home loan mortgage standards provided the opportunity to purchase a home for you to consider for the first time.

I do not blame anyone for taking advantage of purchasing a home during this period that would not have otherwise been able to do so. However, the question is now I got this home and I want to keep it but with the increasing cost of fuel, energy and foods, “how do I do it?” Maybe the question really is “is there anything I should consider to help me do so?”

Throughout the passing of time, the values of properties have gone up and gone down. It is a trend that never changes. We happen to be in a trend of downward values. A downward value time does not need to be a bad time even for the homeowner who bought their house in an upward value time. In fact, the part that you think is keeping you down is actually the answer to “how do I do it?”

The traditional home loans standards to purchase prior to 2004 would require a down payment on the purchase price of 10% or 20% by the buyer. After 2004, the new trend was the 80/20 loan. The Buyer no longer had to put up 10-20% of the purchase price instead the buyer used a 20 loan that second mortgage company would put up for the down payment. First mortgage companies whether or not the second mortgage company accepted these 20 loans and provided a mortgage to the buyer.

It is these 20 loans that might be the main reason you are “underwater” on your home. You might ask “why would they give me a 20 loan and drop the prices on this home?” Well, the reality is that the 20 loan gave you the ability to purchase a home when you were not able to because you did not have the cash to provide a deposit on the home. So, the reason was to allow the buyer to get the home.

The question that we started our conversation on was to how to keep your home even if it might not be an ideal situation. Also, we talk about what you should consider to help keep your home. One possibility is a lien strip pursuant to 11 U. S. C §506. What is a lien strip? It is a process in a Chapter 13 bankruptcy case that will allow a homeowner to strip the second mortgage from their home. In other words, the homeowner can get rid of the burden of paying on the 20 loan monthly as well as stripping the lien from the home. So, if you have a $100,000.00 second mortgage aka 20 loan that you pay $250.00 a month on, you will not have to pay the $250.00 monthly payment nor the $100,000.00.

Yes, this is true. Your federal government gave you the right to get rid of your second mortgage. Many people do not know about this law or even consider it in 80/20 situation. If you are struggling with your home that you purchase as an 80/20 loan combination, you should really take the time to look at your options at this time. For as we know from the last couple of years, the property values that are down will go up eventually and an opportunity to lien strip could be lost.

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