

## MICROECONOMICS 104 - Defending Your Home

I keep hearing that millions of people are in foreclosure, and keep hearing the media trying to convince you that re-financing or selling your home is the best solution. Then, in the next breath, I hear the same talking heads say that now is the best time to make money in real estate. And, of course, there is the Bear Sterns meltdown based on making (or buying) shaky mortgages that:

- a.) probably shouldn't have been made in the first place and
- b.) might have been

saved by the bankers, themselves, through re-negotiated interest rates and possible extension of loan terms.

c.) might have been brought about by bad advice which saw people maxing out their entire potential to ever catch up by borrowing at extreme rates to make payments, most of which went to pay against the interest.

Needless to say, I am having some real problems with the "expert" advice being thrown around. So here's a little bit of advice from a village

idiot whose only claim to fame is "been there, done that!"

FIRST: If you are in a house, and having problems making payments, start out by talking to your lender ... and if you have a VA- or FHA-insured loan, talk to the VA, CalVets, or HUD. Each of these agencies has, or used to have, a program called payment forbearance.

Forbearance works like this: You sit down with an agency financial advisor who looks at your current and future potential to

be able to make payments and, ultimately, reinstate your loan to a current status. Do not make the mistake of talking to mortgage brokers first-making loans (even if they are sub-prime) is their business.

Be ready for the fact that you might have to get ready of your new car, put off that well-deserved vacation cruise, and start relying on today's income to cover today's expenses ... and if you are going to have to dispose of indebtedness by eliminating encumbered assets (car, boat, SUV, snowmobile, private aircraft, second residence, or your new-but not yet purchased on credit--wardrobe) NOW! Don't put it off until it's too late. (And please forgive the sarcastic tone, but I have heard a lot of people tell me they can't get shed of ..., but they also can't make their house payment!)

Write out a realistic hierarchy of interest ... and note that the first items

should be "food, basic clothing, and shelter." Once you have that list, start figuring out how to either increase your income (hard to do in today's market) or reduce and eliminate debt service payments. And before you compare your mortgage payment to a rent payment, remember that you can deduct the interest and property taxes from your income taxes, but none of your rent will come back to you. Also consider that most of your other interest is NOT deductible. Mundane facts, but applicable in keeping your financial ship afloat.

I had a friend on the verge of losing her house, but at the top of her list she had written down three pieces of income property which were over-financed (one at 117% of the appraised value) and were all in negative cash flow. She had bet on an inflationary market and lost ... but she wanted to hold on until the market recov-

ered. She lost the house, the properties, and a whole lot more. If she had bailed on the income albatrosses, she would have saved the house.

Rather than keep on writing for another eight or ten pages, at this point I will refer you to a small booklet called Cash Mountain (available for \$11 including tax and shipping from Focus Text Publishers at P. O. Box 621706 in Orangevale, CA 95662) for \$9.95). It deals with a concept my co-author and I call CSCM-Common Sense Cash Management, talking about managing the money and income you have rather than about budgeting the money and income you hope you will have when the time comes.

Because that time is NOW!

*Comments and suggestions for MicroEconomics can be sent to: [business@orangevalejournal.com](mailto:business@orangevalejournal.com)*

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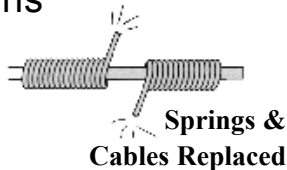
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