


# UNDERWATER MORTGAGES

**How to swim instead of sink**  
by Heidi G. Evans

**J**ust six years ago, people told military families they were crazy if they didn't buy a home when arriving in a new duty station on three-year orders. But since the housing bubble burst, many military families are forced to make tough decisions when they PCS next. 





Negative equity, when a homeowner owes more than the home is worth, is often called an “under water” mortgage. Nationwide, in the last quarter of 2010, nearly one-fourth of American homes were under water, according to CoreLogic, a financial analytics firm.

For military families in this situation, PCS orders can be terrifying. If they own a home and can’t sell it at a profit when it’s time to PCS, some families are forced to become long-distance landlords. Others face foreclosure.

Some are eligible for government assistance programs, but all face a long and stressful road. Buyers can be hard to find, given that many are too afraid to enter the market or are now required to bring at least 20 percent down to the closing table. If you’re in this situation, what are your options? There are many solutions, none is one-size-fits-all.

If at all possible, selling the home at a loss may be your best option, says J.J. Montanaro, a financial planner with USAA Financial Planning Services who has spent almost a decade working with military families. Service members might consider using advanced pay programs for this purpose. “You could be done with it and call it a lesson learned,” Montanaro said.

But most families don’t have enough money to cover the difference between the price the buyer pays them and the remaining mortgage they owe. So some choose to rent out their properties. Montanaro finds this “financially fruitful” for about 30 percent of his clients. In fact, some own multiple rental properties.

For the other 70 percent of Montanaro’s clients, the incoming rent doesn’t cover the mortgage or tenants are hard to find and keep. If the rent doesn’t cover the mortgage, or if you go several months without a tenant, the overall cost can be even worse than selling at a loss, he says.

If there are tens of thousands of dollars difference between the home’s appraised value and your remaining mortgage, Montanaro encourages military families to “talk to their banks and also look at government programs designed to help.” Some could decrease the monthly mortgage, making renting more viable. Others could cover the difference if you sell for less than your home is worth.

The final and worst option is foreclosure, with long-lasting impact on a service member’s credit or even their security clearance and career in some branches.

## THE WORST OPTION IS FORECLOSURE, WITH LONG-LASTING IMPACT ON A SERVICE MEMBER’S CREDIT OR EVEN THEIR SECURITY CLEARANCE AND CAREER IN SOME BRANCHES.

### RESOURCES

#### INFO ON SEVERAL GOVERNMENT PROGRAMS

Most are best used BEFORE you miss a mortgage payment. If you need to renegotiate a mortgage or consider a short sale, you may get help here. [MakingHomeAffordable.gov](http://MakingHomeAffordable.gov)

#### VA COMPROMISE SALE

Get information on how to pursue a short sale on a VA loan. [www.vba.va.gov/ro/houston/lgy/com-psale.html](http://www.vba.va.gov/ro/houston/lgy/com-psale.html)

#### HOUSING ASSISTANCE PROGRAM (HAP)

There are tight guidelines, but significant help for those who bought before housing prices plunged. [hap.usace.army.mil/homepage.asp](http://hap.usace.army.mil/homepage.asp)







## SHORT SALE

### SELLING YOUR HOME FOR LESS THAN YOU OWE ON IT

In a short sale, your bank allows you to list the property knowing it will sell for less than you owe them.

It's not easy: First you must apply to the bank to sell the property as a short sale. Second, you have to find a buyer who wants your home and is serious about buying it, and is also comfortable with waiting through the sometimes very lengthy short sale process.

Finally, the bank must accept the buyer's price—just any offer won't necessarily qualify.

Many service members fear a short sale will drop an atom bomb on their security clearance and career. It can harm your credit, but far less than a foreclosure.

The Department of Defense (DOD) acknowledged the effects of the housing crisis on military personnel as far back at 2008, according to a DoD spokesperson.

Prior to the enactment of the Housing Assistance Program, or HAP, the DoD asked the service branches to review their policies on how mortgage problems should affect security clearance.

Every branch made its own decisions. Those considering a short sale should check with their chain of command and the legal office on their post or base.

Mandy Satter's Coast Guard family chose this option, which she described as long and stressful. They bought their Florida home in 2007, a few months before the market crashed.

In three years, their home lost \$100,000 in value and they couldn't rent it for the mortgage payment. The short sale took 11 months.

"There were many times we didn't think it was going to go through," she said. Thankfully, her husband's Coast Guard career will not be affected. ☒





## RENT

### FINDING A TENANT TO RENT YOUR HOME AFTER YOU'VE MOVED OUT

Renting works if your home can be rented for at least the cost of the mortgage payment. Search for a tenant through a real estate agent you trust or on your own with tools like [www.MilitaryByOwner.com](http://www.MilitaryByOwner.com). Then select a property management company with a great reputation.

Choose your tenants carefully (background checks are key) and make concessions for a high-quality tenant who will take care of your home.

If possible, build a savings cushion so you can cover your mortgage and any unexpected expenses like a broken air conditioner or an insurance deductible.

If the rent won't cover your current mortgage, try to renegotiate your loan with your lender. (It's worth trying that even before PCS orders come through, because renegotiation programs favor people who live in the home.)

Sound tough? It can be, but homeowners like Tyler Pitre have done it: Her husband was transferred from Guam to San Antonio, Texas, in 2008. Thinking her husband had a long-term assignment, they bought a home... then got PCS orders after only 16 months.

Selling the home would cost them money, so Pitre became a long-distance landlord. She advises anyone trying to rent to use a highly recommended property manager: "It needs to be a real estate professional. You don't want grandpa trying to evict a meth lab from your house."

To save money, Pitre found her tenant through [www.MilitaryByOwner.com](http://www.MilitaryByOwner.com). To encourage a long-term rental, she offered lower rent for someone willing to sign a two-year lease. She also chose a military renter and required in the lease that rent be paid by direct deposit.

## HAP

### GETTING HELP FROM THE HOUSING ASSISTANCE PROGRAM (HAP)

Initially created to assist those hurt by base closures, wounded military and survivors, HAP was expanded in 2009 to service members with PCS orders. It helps those who bought their homes as the housing market peaked. The window of eligibility is closed for many, but for those eligible it can be a life-saver.

"Thank God for HAP," said beneficiary and Navy wife, Cyndia Rios-Myers. Her family bought a home in Maryland in 2006, expecting her husband to retire there from the Navy. When they received orders to San Diego, buyers weren't willing to pay a price they could financially accept. The going rental rate was \$500 less than their monthly mortgage. After more than a year, they slashed their price and found a buyer.

They applied to HAP to cover the \$50,000 they needed to pay their remaining mortgage and fees for the sale. Completing the application took two weeks, but they were successful.

"My left eyelid shakes when I think about it," Rios-Myers said.

Her husband still wants to buy a home, but she won't consider it until he retires. "You buy a house and you are anchored into it. In the military, you are here today and gone tomorrow," she said. "I don't want to risk that again."

#### To be eligible you must:

- ✦ have orders to a new duty station more than 50 miles from your current one.
- ✦ have this PCS ordered between Feb. 1, 2006, and Sept. 30, 2010.
- ✦ have bought the home before July 1, 2006.
- ✦ Also, the home must have decreased in value by at least 10 percent since purchase and it must have been the service member's primary residence.

Visit [hap.usace.army.mil/homepage.asp](http://hap.usace.army.mil/homepage.asp) for information. ♥