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REAL ESTATE

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GINA FERAZZI *Los Angeles Times*

QUALIFYING TIPS: *Potential first-time home buyers pack a seminar put on by a builder, D.R. Horton Homes, in Van Nuys.*

Turning a dream into reality

Builders' programs are the latest to help guide first-time buyers and the credit-challenged into homeownership.

By CHUCK GREEN
Special to The Times

For Jackey Smith, who grew up in a San Francisco housing project, being the first person in his family to own a home has been a personal triumph.

"My grandparents wanted to be homeowners, but that was never possible for them," he said. "So being able to say I own a piece of property ... is humbling."

In fact, it was after the death of his grandfather last year that Smith, 26, began his house hunt.

"My wife and I decided to look at homes just to see what we'd want. We went up to Lancaster and drove to about four or five homes, and at about the fifth, something inside of me said, 'This is your house,'" said Smith, who was renting an apartment in Inglewood at the time. The model they liked was priced at $325,000 before add-ons, and the couple started the home-buying process that night.

Although Smith believes his grandfather's spirit may have been watching over him that day, he and his wife, Shabren, who both recently earned master's degrees in social work from USC, also credit DHI Mortgage, an affiliate of D.R. Horton Homes, for guiding them in the purchase of their 2,037-square-foot, four-bedroom home.

"They gave us a clear understanding of what was expected from us and what the process entailed," said Smith, who added that he found having their finances scrutinized a bit intimidating.

The builder, as well as Western Pacific Housing, a division of Horton, and KB Home, are among Southern California residential developers that have started programs and classes to help first-time and credit-challenged buyers make the leap to homeownership. Although mortgage companies, real estate agents and nonprofits have long offered buyer workshops, builders' interest in such programs is not just a result of altruism. Such classes are a natural marketing tool for builders who want to establish relationships with buyers and direct them toward lenders.

The D.R. Horton-affiliated DHI Mortgage Home Buyers Club, for example, which also helps owners who are refinancing their homes, is an intensive program designed to target every area of a client's credit file.

When enrolling in the club, consumers are assigned a loan officer who is responsible for evaluating their eligibility for a mortgage, as well as an advocate who will educate them throughout the credit-checking process.

"These home buyers clubs fill a valid and needed purpose," said Dianne Wilkman, president of Springboard Non-Profit Consumer Credit Management in Riverside. "We see a lot of abusive practices that unfairly damage people's credit scores, and they need these credit advocates."

Such clubs and programs are effective ways to even the playing field, Wilkman said. "You need a lot of knowledge of how the system works. A damaged credit score will create a higher-cost loan, so it's an important starting point to make sure your credit report isn't being abused."

Homemaker Sandy Wicken, 37, and her husband, Darrin, 34, a postal worker, are among the nearly 1,000 people who have participated in the DHI Mortgage Home Buyers Club. The Chatsworth renters wanted to get a clearer idea of what ownership would entail.

Wicken said she and her husband participated in the program "so I wouldn't be so scared about buying a home."

"I didn't know what to expect, but now I'm not as nervous about it," she added. "I had no idea what would be involved financially, about things like points, taxes and credit score."

Since 2004, according to Mike Seeley, an affordable lending loan manager and a below market rate home specialist at DHI Mortgage, the program has assisted 340 families in purchasing homes.

Even with their newfound understanding of the process, Sandy Wicken said L.A.-area home prices are making it difficult for the couple to join those ranks. But at least they now have an idea about what's available in their price range, she said, and the steps to buying a home.

Although D.R. Horton walked the Smiths through the loan process, they declined to join a buyers club. Instead, Shabren, 25, got a real estate license — not to sell homes, but to educate herself further about the process.

Jackey is still taken aback by their status as homeowners. "Some people who come from substantial means," he said, "still aren't able to purchase a home."

NATION'S HOUSING

The cash-out refinance has rarely looked so goo

By KENNETH R. HARNEY
Washington Post Writers Group

WASHINGTON — Remember back when you refinanced your home mortgage to get a lower interest rate and pay less every month?

How quaint. Now the rage is refinancing into a higher interest rate while pulling out cash.

Almost nine out of 10 homeowners who refinanced during the second quarter "cashed out" additional money — often tens of thousands of dollars and more — according to mortgage investment giant Freddie Mac. The 88% cash-out refi rate was close to the all-time record and could surpass it later this year.

Meanwhile, the typical refinancer hasn't been scouring the market for an interest rate lower than his or her existing first mortgage. To the contrary, according to Freddie Mac, most refinancers are opting for larger replacement first mortgages with rates averaging about one-half of a percentage point higher than on their old loan.

Cash-outs may be booming, but they are not new. They've existed for years as a financial tool to extract equity and convert it to immediately spendable money. During the refi boom years of 2003 and 2004, for example, anywhere from a third to half of all refinancers pulled out additional cash. However, the overwhelming majority of borrowers during that period chose traditional rate-reduction replacement mortgages in which the new balance approximated the old and the new monthly payment was lower than the old.

Scroll ahead to mid-2006: Short-term interest rates no longer hover near 4%. Thirty-year fixed-rate first mortgages no longer are in the 5% range. The prime rate is 8.25% and could move higher. Standard 30-year mortgage rates are nudging 7%. Home-equity credit lines are slumping as their adjustable rates — typically set one or more points above the bank prime — start racking up bigger monthly costs.

Now consider the near-record pace of cash-out refis: Say you need $40,000 to $100,000 for home improvement, a down payment on a vacation property or to consolidate high-cost consumer credit debts. Say you also have lots more than $100,000 si untouched in home eq Rather than signing up f home-equity credit line tied jumpy and unpredictable p rate plus 1%, you instead op a fixed-rate cash-out refi.

In effect, you trade in you isting first mortgage — say i 6.25% — for a replacemen 6.75%. Plus you pull out money you need and add it t principal balance of the loan. Yes, your monthly payn will be higher than you were ing on the old loan, and yes, y have transaction costs, w you may be able to roll into new loan amount. And yes, total first mortgage debt ma significantly higher than it w

But then again, would yo happier with a $100,000 c line with a floating rate pe tially heading for double dig

Amy Crews Cutts, Fre Mac's deputy chief econo says another factor at wor the big shift to cash-out may be the estimated $500 lion in adjustable-rate first m gages that will experience "resets" this year, plus ano $650 billion in second mortg and equity credit lines that adjust upward.

Many homeowners want of these mortgages — espec those with 40% and 50% ment increases at the first r Refinancing into standard f rate loans suddenly looks at tive. And if homeowners can out some cash in the proc that's fine, says Cutts, bec "many people see that their estate has been one of the things making money for t during the past few years."

Another key to the cash refi boom, according to C "Borrowers have developed ways of thinking about t home mortgages" and incr ingly see them as resource not just debt loads — to be to achieve financial objective

Should you consider a c out? Not unless you really r the money; you don't wan play roulette with an adjusta rate equity line; you want to in your mortgage debt at a r tively low long-term fixed r Check out fixed-rate sec mortgages as well.

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