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If you're having financial trouble, contact your mortgage lender at once! InCharge Debt Solutions and a variety of government-sponsored programs are available to assist you in keeping your home and your good credit score.

Upon completing this section of the course, you will have knowledge of steps to take to safeguard your mortgage if you face financial hardship. You'll have knowledge of possible sources of advice and assistance to avoid foreclosure.

Whom should you contact if you know a payment will be late?

Check your loan statement to confirm your mortgage due date as well as what late fees and penalties you can expect to be charged if a payment is not received by that date.

Some things in life are beyond your control. A divorce, a salary cut, the loss of a job, medical expenses, an involuntary relocation or other major event might make it impossible to meet your mortgage obligations. If so, **contact your lender immediately** to show that you intend to tackle the problem head-on. If your lender contacts you first, cooperate to avoid foreclosure. Remember, your lender can't help you if you don't explain that you have a problem.

Write to your lender before the payment is due and explain what the problem is, why it's affecting your mortgage payment, when you'll be able to make a complete or partial payment and how long you think the problem may persist. To avoid confusion, mail this information to the address your lender specifies for problems or questions about your account. This address will probably be different from the address where you mail your monthly payments. If you use a payment coupon book or receive monthly statements in the mail, you should find an address listed there. If you don't see an address for problems or questions, call your lender and ask where to send your letter.

Do not delay seeking help. Your lender can begin foreclosure 90 days after you miss a payment and a foreclosure can hurt your credit record for up to seven years. Most lenders will not approve a mortgage loan if your credit report includes a past foreclosure.

How can your lender help when you're having a problem?

There are several things your lender can do to assist you through financial trouble. You may have options because lenders generally don't want you to lose your home. Foreclosures are expensive and time-consuming for lenders. Many lenders will view foreclosure as a last resort if you sincerely attempt to work out another solution. The following are some possible alternatives:

- ***Pre-foreclosure Sale*** - If the market value of your home is lower than what you owe on your mortgage loan, you may be able to list your home for sale, and then negotiate with your lender to discount your loan so the sale of your home will discharge your debt. This is called a "short sale" and can help if your house loses value because of changes in the local real estate market. Talk to a tax accountant so you'll know if there will be any income tax liabilities from a short sale. Be aware that you may have to pay additional income taxes on the monetary difference between your mortgage balance and the actual sale price of your home.
- ***Forbearance*** - If a temporary financial setback causes you to miss your mortgage payments, you and your lender may be able to work out a repayment plan that lets you catch up on missed payments and avoid foreclosure. You'll have to show proof of your financial crisis and a realistic spending plan to get up-to-date on mortgage payments.
- ***Mortgage Modification*** - If your income drops substantially, don't wait until you go into default before asking your lender for help, such as modifying your loan to lower your interest rate, extending the duration of your loan, or adding delinquent amounts onto the principal. You'll pay more money over time but lower your monthly payments to an amount you can handle.
- ***Partial Claim*** - Your lender may help you qualify for an interest-free loan from HUD. This loan could allow you to make your mortgage current under the following circumstances:
 - You're delinquent for more than four months, but less than one year;
 - You're not yet in foreclosure; and
 - You're able to begin making full payments again
- ***Deed-in-lieu of Foreclosure*** - If all else fails, you may be able to give your home back to your lender. You'll lose the home, but do less damage to your credit score.

"Beware of little expenses; a small leak will sink a great ship."

-Benjamin Franklin

What are some signs of financial difficulties that might lead to foreclosure?

There are several signs to indicate you may be on the road to financial disaster. If you see any of the following warning signs, you probably need to re-evaluate your spending and saving patterns to avoid future difficulties. You'll find more help in Chapter 3, ***Establish a Spending Plan and Set Aside Reserves***.

Table 11-1: Financial Warning Signs

You may be headed toward financial difficulties if you:
<ul style="list-style-type: none"> • Are living paycheck to paycheck. • Are unsure or unaware of the total amount of debt you owe. • Have paid late fees and / or over limit fees at least twice in the past year. • Have debt payments (other than your mortgage) that are more than 20% of your pre-tax income. • Have received telephone calls from creditors about overdue bills more than once during the past six months. • Are struggling to pay more than the minimum payment on your credit card accounts. • Would be unable to meet your financial obligations for three months following a decrease in income or a costly emergency purchase. • Have money problems that cause distress or conflict at work or at home. • Are at or near your credit limits. • Have borrowed from one credit card or taken a cash advance to help pay off another credit card at least once in the past year.

If you experience fewer than five of these signs, your debt may be within manageable limits. When paying off your non-mortgage debt, be sure to make more than the minimum monthly payment so that more money can be applied toward the principal of your debt.

If you experience more than five of these signs, you'll need to take immediate steps to reduce your total debt before you end up facing foreclosure. First, add up all your bills to determine how much you owe. Then set up a budget to track your monthly income and expenses. Identify as many ways as possible to decrease your expenses and increase your income. Consider contacting your creditors to explain your situation. They may be able to lower your interest rates, suspend fees, or offer you some other short-term relief.

Who can provide assistance to you if you're in real distress?

A foreclosure is something you definitely want to avoid. It legally allows your lender to take back your home and resell it if you fail to make your mortgage payments. If the resale value is lower than the amount you still owe on your mortgage, you could end up owing the difference. This is called a deficiency judgment. A foreclosure can have long-term, damaging effects on your credit history because a foreclosure becomes a matter of public record and can stay on your credit report for up to seven years. Fortunately, there are many public and private organizations that are eager to help you get through a financial crisis and hold on to your home investment. You can find help by taking the following steps:

- Call an **InCharge Debt Solutions** housing counselor toll free at 877-251-1882 for help, or visit www.incharge.org for assistance.
- If you have trouble making your payments on a VA loan, you can visit the U.S. Department of Veterans Affairs at www.benefits.va.gov for information.
- Visit the U.S. Department of Housing and Urban Development website at www.hud.gov for programs that may be available to you.

“It takes just as long to get out of any trouble as it took to get into it. And sometimes longer.”

-J. Kenfield Morley

Be on the lookout for foreclosure scams as well. Avoid paying so-called “buyers” or “specialists” who claim they can help you escape foreclosure. At best, they charge money to do things you could do yourself. At worst, they could be scam artists intent on squeezing a few bucks from you. A few of the most common scams - and their disastrous results - are described in the following table.

Table 11-2: Typical Foreclosure Scams

The Promise	The Reality	The Result
“Sign this paper and I’ll pay your past-due mortgage payments”	The paper is a deed that transfers ownership from you to the scam artist who never pays your lender a cent.	You lose the home and any equity you’ve built up AND you’ll still owe the unpaid balance of your mortgage loan.
“Sign this paper and I’ll get you a new loan”	The paper is a deed and the new loan has a much higher interest rate than the one you’re already having trouble paying.	You lose the home and get saddled with debt for a first AND second mortgage loan.
“I’ll sell your home fast for a great price”	The “great price” turns out to be far less than you’d earn on a short sale arranged by your lender.	You lose the home and still have to pay off the unpaid balance of the mortgage loan.
“I’ll rent your house and pay your lender directly instead of paying you”	Your “renter” lives rent-free and never pays your lender.	You lose the home and end up in foreclosure AND bankruptcy because of the accumulated non-payment.

If you’re in a bad financial situation, no one can guarantee that you will avoid foreclosure, but you CAN avoid making your situation worse by:

- Including your lender in all negotiations.
- Informing your lender of any attempt to sell your home.
- Making sure your lender will release you from all liability for your debt before you accept any offer to assume (take over payments) your loan.
- Being wary of people who offer help in exchange for money.

If you get an offer that sounds good, but want to be sure it’s legitimate, talk to your lender before you sign anything. Make sure that your lender will agree to release you from liability for your mortgage debt. Whatever you do, don’t abandon your home. You could lose eligibility for HUD and VA mortgage assistance programs.

Summary

If financial difficulties threaten, seek help *before* foreclosure happens to you. Talk to your lender about working out possible payment alternatives. Avoid foreclosure scams.