

TIPS AND TRICKS TO STOP FORECLOSURE

INTRODUCTION

Foreclosure has become a hot topic at kitchen tables across America. It is estimated that as many as a million homes may be in foreclosure. However, what you might not realize is that there is help available to prevent you from losing your home to foreclosure.

In this brief report, you'll learn the top tricks of the trade as far as beating foreclosure is concerned. As a result, you'll be much better equipped when your lender comes calling for your house. By following these simple strategies, you can keep your home—and your sanity—when the prospect of foreclosure looms.

LEGAL DISCLAIMER

Please note: This handbook should be considered a basic guide for preventing foreclosure. It is not meant to take the place of legal advice. If you find yourself facing foreclosure proceedings, please contact an attorney in order to be apprised of your legal rights. You can locate a lawyer specializing in foreclosure by contacting your local or state bar association.

BE CAREFUL WHEN BUYING A HOME

A home is your most important investment, so you want to make sure that you choose wisely. To protect yourself, hire a realtor who specializes in buyers' needs. That way, you can ensure that the real estate agent is looking out for your best interests in the course of the transaction. Make a list of the features you absolutely need in a home—for instance, central air, garage. When you're shopping, be sure to look at only those homes which are in your price range. That way, you'll avoid the temptation of over-buying.

STEER CLEAR OF ARMS

You may be tempted to seek an adjustable-rate mortgage, or ARM. That's because such mortgages tend to boast interest rates that are initially 1.5 to 2 percent lower than the typical 30-year fixed-rate mortgage. However, once the loan re-adjusts to a higher interest rate, you may have great difficulty repaying the loan. When your monthly mortgage payment suddenly skyrockets because of a rate adjustment, you might not have the wherewithal needed to deal with the increase. Therefore, the best advice is to avoid ARMs altogether.

ORGANIZE YOUR RESOURCES WISELY

Before you purchase a home, it's important that you organize your financial resources in order to prevent foreclosure later on. No matter how penny-

pinching you might be, you may have months when it is difficult for you to make ends meet. If you find that you must delay a payment on something, pay your instalment loan bill before making your credit card payment. That's because the instalment loan carries more weight in the loan application process.

You may find that it is more practical to pay off some of your debts rather than amass a large down payment for your closing. While you will end up with a larger mortgage this way, you'll be replacing non tax-deductible debt with a high-interest to lower-interest debt that is tax-deductible.

In addition, hold off applying for new credit cards until you've secured your home loan. If you have a number of credit inquiries, it can damage your credit score. In addition, you should refrain from making any large purchases in the next few months because they could siphon money away from your down payment. So, if possible, delay that new car purchase for six months, when you may have more cash available. Financial experts say your total debt obligation should be less than 36% of your gross monthly income.

WHEN YOU CAN'T MAKE YOUR MORTGAGE PAYMENTS

You should be aware of the fact that, if you are unemployed or facing the prospect of unemployment, you still may be able to keep your home—if you follow the proper procedures. You can take comfort knowing that the Department of Housing and Urban Development/Federal Housing Administration and the mortgage industry have teamed up to try to prevent Americans facing dire financial situations from losing their homes.

Of course, there are other compelling reasons which may put your home ownership at risk. These include illness, the death of a relative, divorce, a reduction in work hours, or retirement. If you find yourself in such a situation, it's a good idea to take a close look at your current earnings and debts. Try where at all possible to reduce your spending, and eliminate spending on luxury items.

CONTACT YOUR LENDER IMMEDIATELY

Avoid waiting until you hit rock bottom to contact your lender. Instead, reach out to your lender as soon as financial difficulties surface. The natural tendency when you are in financial free-fall is to hunker down and hide, but that's actually the worst strategy to take. You'll need the support of your lender to help you keep your home.

Keep in mind that your lender is on your side—the company does not want to foreclose on you. And you should be aware of the fact that, just because you mention your financial troubles to a lender, that does not mean that the lender will impetuously move to collection. Foreclosure is an expensive proposition for lenders, and they too want to avoid it at all costs. HUD/FHA and mortgage firms such as Freddie Mac and Fannie Mae actually instruct lenders to work with homeowners who are facing financial challenges.

Lenders offer various options for assisting you in keeping your house. Still, you should know that such possibilities become limited if you are more than a payment or two behind. When you have already missed several payments, keeping your home becomes much more difficult.

There is always the temptation to hope that your financial situation will turn around and that you won't need help. But "going it alone" can be a sure-fire way to lose your home. Asking for assistance may require you to swallow some pride, but it is worth it in the end.

You should be able to find contact information for your lender from your monthly mortgage billing statement, your payment coupon book, or web links for "help for homeowners" lenders. When you place the call, make sure you have on hand your account number, pay stubs, benefit statements from unemployment and Social Security, and a breakdown of your household costs. Briefly explain your financial circumstances to your lender so that the reason for your financial problems is clear.

Keep in mind that it may take more than one phone call to resolve your problem. Chances are the lender will send you a "loan workout" package which contains forms for applying for help. The lender will then review the package and discuss the situation with you.

It is critically important that you maintain contact with your lender. If you fail to respond to mailings, the lender is actually required to begin legal proceedings for foreclosure. And that legal work could make it even more expensive to save your home.

SET UP A DEBT REPAYMENT PLAN

It's important to have priorities in life, and that is certainly true when it comes to debts. If, for instance, you are unemployed, you should focus on those financial obligations of greatest concern: food, housing, and utilities. This means that any income available after paying for food and utilities should be channelled into housing.

Make it a point to eliminate luxuries such as restaurant dining, cable television, entertainment, and gratuitous purchases. Tap into your stocks or savings accounts. Consider selling your second car or holding a garage sale. Whatever prudent means you can use to boost your income would be beneficial at this time.

If you find yourself over-extended on credit cards, consider calling a consumer credit counselling agency to assist you with your bills. The credit counsellor may be able to work out a payment plan that lowers your monthly payments or allows a more flexible repayment schedule.

CONSIDER WORKOUT SOLUTIONS

If you have fallen behind on your mortgage payments, you may qualify for a workout solution. This can be an incredibly convenient way to hold onto your house when you are facing tough times. Here are some possibilities for you if you are faced with this situation:

- **Reinstatement**
In this situation, you would talk to your lender about providing the total amount owed by a particular debt.

- **Forbearance**
You may be permitted to cut or even suspend payments for a brief time period. Then, you would pursue another option to bring your loan up to date.
- **Repayment Plan**
This maps out a way to pay on your loan that is more in keeping with your financial situation. You resume making regular monthly payments, along with a portion of the past due amount until you are current with your loan.
- **Mortgage Modification**
Your lender may be able to alter some of the terms of your original loan if you can make payments but you cannot afford the set payment amount. Your interest rate could be changed, or the length of repayment could be extended.
- **Claim Advance**
If you have an insured mortgage, you might be able to obtain an interest-free loan from your mortgage guarantor in order to bring your mortgage up to date. In addition, you may have several years to repay the loan.

In some cases, however, despite your earnest desire, you may not be able to hold onto your home. Even in this type of situation, you have several options:

- **Sell Your Home**
Your lender will usually consent to allow you a certain period of time to find a buyer so that you can pay off the total loan amount. The lender, however, will want you to contract with a real estate agent in order to sell the house as quickly as possible.
- **Pre-Foreclosure Sale**
In this type of situation, your lender may be willing to accept less than your loan amount. You may even get financial assistance to help you with moving costs.
- **Loan Assumption**
A qualified buyer may be able to assume your existing loan—a situation which can become a win/win prospect for both buyer and seller. Keep in mind that this may be an option, even if your original loan documents barred such an action.
- **Deed-In-Lieu**
In this situation, the lender permits you to return the property and

forgives your loan. Before you can assume this option, however, you will probably have to attempt to sell the home for a period of 90 days. However, if you have other judgments against you, such as an IRS lien, this may not be an alternative for you in your particular situation.

If you need to sell your home and don't know a realtor personally, there are a number of entities that can assist you. These include the National Association of Realtors, the National Association of Real Estate Brokers, the National Association of Hispanic Real Estate Professionals, and the International Real Estate Digest. You can find more information about these organizations on the World Wide Web.

WHEN REFINANCING WON'T WORK

You've seen commercials on television...heard promos on the radio...and seen ads on the Internet...all touting the virtues of home loan refinancing. Indeed, refinancing a mortgage can be quite tempting—especially if you find yourself noticeably short on cash at the end of the month. The refinancing ads make it look as if all your financial problems can be easily solved with a re-fi deal. Through refinancing, you can, in fact, decrease your interest rate and cut your monthly mortgage payments. Still, you must do a careful cost/benefit analysis before you sign on the dotted line.

A little research is in order here. Call around and find out the rates that are available and contrast them with the rate you now have. Experts say that if you are unable to cut your interest rate by at least two full points, you're better off passing up a refinancing deal.

You should also keep in mind the fact that, when you refinance, you will likely be adding years to your loan. As a result, it could take you much longer than 30 years to pay off your mortgage—a daunting prospect, especially if you are approaching middle age.

Still, refinancing can be attractive if you have quite a bit of credit card debt to deal with. Since credit cards often carry high interest rates, you could be doing yourself and your family a favor by consolidating your debt. Such consolidation could also result in lower total debt payments.

If you're unsure whether refinancing is a good idea in your particular situation, consult an independent financial planner. He or she can do the math for you, giving you a clear indication of both the benefits and the liabilities of refinancing. If you do your homework and consult a professional, chances are you will make a sound decision with regard to a refinancing offer.

A FORECLOSURE "TO DO" LIST

1. **Do everything possible to keep your home and to maintain your credit history**

You may need to re-adjust your lifestyle; you may be forced to take steps that would have been unthinkable at another time. But serious steps are necessary when you are confronted with a significant financial setback. The more pro-active you are, the better off you will be in the long run.

2. **Be forthright with your lender**

If you cannot make your mortgage payments, a call to your lender is essential to keep from losing your home. If you believe that a phone call will be too uncomfortable, consider writing to your lender instead. The important thing is to keep the lines of communication open. Be completely candid with your lender regarding your financial situation. Resist the temptation to conceal potentially embarrassing financial information. Remember, your lender is on your side. The mortgage firm wants to do everything possible to maintain your home ownership.

3. **Remain in your house**

By staying in your home, you can ensure that you qualify for housing assistance. If you vacate the premises, you may have difficulty retaining ownership of your house.

4. **Set up an appointment with a housing counselor approved by the Department of Housing and Urban Development**

This is actually a critical step. The HUD counselor will explore all of your options with you. He or she can be a tremendous ally as you make your way through the foreclosure maze. You can arrange an appointment by calling the hotline number—800-569-4287. Be sure

to cooperate with the counselor. Putting up roadblocks, failing to take advice, and resisting assistance will only prolong your financial agony.

5. **Seek every alternative for keeping your home**

Your lender and/or HUD counsellor may be able to come up with some creative solutions to help you retain home ownership. Be open-minded and listen carefully to all the options that are presented. Don't be afraid to ask plenty of questions—it shows your determination to research all available options. The only question you'll regret is the one you didn't ask.

HELPFUL RESOURCES

If you're faced with the unpleasant prospect of foreclosure, here are a few resources you might want to consult.

Federal Reserve Consumer Help
PO Box 1200
Minneapolis, MN 55480
888-851-1920 (Phone)
877-766-8533 (TTY)
877-888-2520 (Fax)
Email: ConsumerHelp@FederalReserve.gov
www.FederalReserveConsumerHelp.gov

For information about federally-insured non-member state banks and savings banks, consult:

Federal Deposit Insurance Corporation
Consumer Response Center
2345 Grand Boulevard, Suite 100
Kansas City, Missouri 64108
(877) 275-3342
www.fdic.gov

For information about national banks and mortgage firms, go to:

Office of the Comptroller of the Currency
Customer Assistance Group
1301 McKinney Street
Suite 3450
Houston, TX 77010

(800) 613-6743

For information about federally-insured savings and loan institutions, go to:

Office of Thrift Supervision
Consumer Programs
1700 G Street, N.W., 6th Floor
Washington, DC 20552
(800) 842-6929
www.ots.treas.gov

For information about federal credit unions, consult:

National Credit Union Administration
Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314
(800) 755-1030
www.ncua.gov

OTHER HELPFUL INFORMATION SOURCES

U.S. Department of Justice
950 Pennsylvania Ave., N.W.
Washington, DC 20530
(202) 514-3301
www.usdoj.gov/crt/housing/index.html

Federal Housing Finance Board
1777 F Street, N.W.
Washington, DC 20006
(202) 408-2500
www.fhfb.gov

Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410
800-669-9777
800-927-9275 (TTY)
www.hud.gov

Office of Federal Housing Enterprise Oversight (OFHEO)
1700 G Street, N.W.
4th Floor
Washington, DC 20552
(202) 414-6922
www.ofheo.gov

CONCLUSION

Far too many Americans have gotten caught in the foreclosure trap. However, with guidance and perseverance, you can avoid becoming another statistic. If you believe that you can beat foreclosure, chances are, you can. With a confident attitude and with the right information at your disposal, you can prevent your home from falling into your lender's hands and prevent your credit from being ruined.