



# ***Being a Responsible Homeowner***

## ***Foreclosure***

# ***Being a Responsible Home Owner: Foreclosure***

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When you obtain a mortgage to buy a house, the house itself becomes the security for the loan until you pay off the mortgage. This is when you will retain full ownership of the house (mortgage loans are repaid in monthly installments over a period of up to 40 years, but are usually written for 30 years). Each payment is applied first to the interest due, then to the principal. The principal is the face amount of the loan; for example, if you obtain a loan for \$130,000 at 7 percent interest, the principal would be the \$130,000. If you fail to make payments on the loan, the lender has a legal right to take possession of the property and resell it for the amount due on the note. This process is called foreclosure.

Some common issues such as illness, loss of employment or loss of spouse can affect the ability of families to make their monthly mortgage payment. Other issues such as poor money management, signing mortgage loans with abusive terms or liens against the property can cause problems. Regardless of the situation, the consumer needs to know there may be options available.

The hardest thing when dealing with the possibility of foreclosure is the emotional stress for you and your family. Some people think that the problem will just go away if they ignore it long enough. The truth is that foreclosure is a very real situation.

The best solution is to avoid the situation in the first place. Good money management, reacting

quickly at the first sign of financial trouble and immediately working with your lender are some of the tools that can be used to avoid the situation. If you are facing a financial hardship, do what it takes, within reason, to protect your credit. If you have to sell your house before you become seriously delinquent on your mortgage loan, consider it. If you protect your credit you can purchase another house and most importantly, you will be able to borrow and qualify for other loan products at reasonable interest rates.

## **Where to go for help**

Many lenders will consider a borrower to be seriously delinquent after two missed payments on a mortgage loan. At this time the lenders may call the borrower to find out why the loan payment has not been made. If ninety days pass without payment, the foreclosure process will begin. Not all lenders use this same process. Some lenders may start foreclosure proceedings after the first missed payment. Contact your lender as soon as you know you will miss a payment to find out what options you may have and what the consequences are for missing a payment.

Many times homeowners fail to act immediately and before they realize it, find themselves facing foreclosure. To avoid this situation consult a professional or get more detailed advice from your mortgage lender. One option is to find a local nonprofit housing organization. Housing organizations are known for helping first-time

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homebuyers attain homeownership, but, what many homeowners may not realize is that these agencies also may offer one-on-one counseling for post purchase issues. To find a certified housing counselor call HUD at (800) 569-4287 or TDD (800) 877-8339 or search online at <http://www.hud.gov/buying/index.cfm> and click on the icon “Find a housing counselor near you.”

### **Working with Your Mortgage Lender**

Homeowners should contact the lender immediately when problems arise to establish good faith with the lender. If the lender tries to contact the homeowner and the homeowner refuses to answer, the lender will be less apt to assist the homeowner when the time comes to try to work something out. It is important to understand that mortgage companies are not in business to own and sell houses. Foreclosing on a property can cost the mortgage lender time and money. Mortgage companies would rather work with you and help you catch up on your mortgage loan.

Homeowners can contact their mortgage lender by writing a letter, contacting them electronically via e-mail or calling their office. Regardless of the approach, the homeowner should be sure to contact the appropriate department. Not doing so can delay the homeowner’s ability to take advantage of possible options he or she may have. Other delays include not following up with the lender or not submitting requested documents as agreed.

Homeowners also should have the following information available before they call their lender:

- Account Number
- Specific information regarding their current financial situation
- Reason for hardship
- Monthly income
- Current expenses

- Estimated time of financial hardship

Homeowners also should write down what was said during the call. Include:

- Date
- Time
- Who they spoke to
- What was agreed to

If something was agreed on, then request it in writing so you have a record of it.

### **Possible Alternatives**

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Pre-foreclosure sale. This will allow you to avoid foreclosure by selling your property for an amount less than the amount necessary to pay off your mortgage loan. Note: With this option you are still responsible for the difference between the selling amount and the amount owed on the property, if any.

### **You may qualify if:**

1. The loan is at least two months delinquent;
2. You are able to sell your house within three to five months; and
3. A new appraisal (that your lender will obtain) shows that the value of your home meets HUD program guidelines.

Deed-in-lieu of foreclosure. As a last resort, you may be able to voluntarily give back your property to the lender. This will not save your house, but it is not as damaging to your credit rating as a foreclosure.

### **You can qualify if:**

1. You are in default and do not qualify for any of the other options;

2. Your attempts to sell the house before foreclosure were unsuccessful; and
3. You do not have another FHA mortgage in default.

### **Consequences of Foreclosure**

Foreclosure is the worst-case scenario for any homeowner. If a homeowner goes through a foreclosure, his or her credit is severely damaged and the options for financing another house are limited. If a homeowner does have an opportunity to finance another house, the interest rate is likely to be very high. In some cases, a foreclosure sets up a homeowner for abusive loan terms. The inability to finance another house is not the only consequence of foreclosure. Qualifying for any loan product that requires lenders to pull your credit report also is affected. This can include personal loans, auto financing, cellular phones and policies and rates with certain insurance companies. It is possible to recover from a foreclosure with time and patience. For information on credit refer to the Managing Money module of the curriculum.

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*This resource is one in a series on **Being a Responsible Homeowner** which include:*

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**Getting to Know Your New Home**

Maintenance Repairs, Home Improvements  
Universal Design for Easy Living  
When and How to Hire a Professional

**Financial Issues for Responsible Homeowner**

Financial Responsibilities  
Predatory Lending

**Managing Financial Difficulties**

**Foreclosure**

**Legal Responsibilities**

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