

How to Prevent Foreclosure on Your Home¹

Michael Gutter, Virginia Peart²

If you get laid off, have large medical bills, or experience some other misfortune, it may become hard to make your mortgage payments on time. Unfortunately, if you miss three to six mortgage payments, this could result in foreclosure. What is foreclosure? Quite simply, it is the legal process a lender must use to acquire a borrower's property after the borrower has failed to meet the mortgage contract obligations. The lender seizes the property and sells it in order to retire your mortgage.

If you know you will be missing a mortgage payment, you should be aware that you could be on the path to foreclosure. This would result in you losing your home and the money you have already put into it. Don't wait! Take action to save your home from foreclosure and reduce the impact on your credit rating.

The First Step

Get your facts together and tell your mortgage lender about your problem. Lenders do not want to take your home and often lose money on a foreclosure.

If your lender is located out of town, check your loan papers for a toll-free telephone number. If they

do not have a toll-free number, see if they will accept a collect call from you (their borrower). Be ready to discuss your problem in detail.

Your Lender May Be Able to Help

Here are some possibilities:

1. A new, more affordable repayment plan might be worked out.

2. Your lender can refer you to a credit or housing counseling organization. A counselor will analyze your budget and work with you to develop a plan to bring your mortgage current, if possible.

3. Under certain conditions, your lender may agree to rework (recast) your mortgage, meaning that past due payments will be added to the unpaid principal balance. Your interest rate will not increase, but the time it takes to pay off the loan may be longer, and the overall amount paid in interest over the life of the loan will be greater.

4. In some cases, the lender may temporarily reduce or suspend your regular monthly mortgage payments. Or the past due amount could be reduced by increasing your payments over a period of time (forbearance agreement).

1. This document is FCS3227, one of a series of the Department of Family, Youth and Community Sciences, Florida Cooperative Extension Service, IFAS, University of Florida. First published July 1993. Revised December 2007. Please visit the EDIS Web site at <http://edis.ifas.ufl.edu>.

2. Michael Gutter, assistant professor, and Virginia Peart, former associate professor, Department of Family, Youth and Community Sciences, University of Florida, Gainesville, FL 32611.

5. If your home mortgage was insured by the Federal Housing Administration (FHA), the lender must refer you to a housing counseling agency that has been approved by the U.S. Department of Housing and Urban Development (HUD). You will work with a counselor and the lender to work out a repayment plan to bring your mortgage current or to sell your house.

6. If you cannot make regular monthly mortgage payments within a reasonable period, your lender may advise you to: (1) protect your investment by selling your home, or (2) reduce your loss by signing your property over to the lender. Consider these two options only as a last resort. Either one can help avoid foreclosure and reduce the damage to your credit rating.

Make a Good Impression

Before calling or visiting your lender, think about questions the lender may ask you. Make notes to help answer them. Be prepared and sincere. Here are some questions you will need to answer:

1. What caused you to fall behind in your payments?

Explain the situation that led to your problem (such as a lay-off notice, a medical expense, large utility bills, etc.). Tell the truth.

2. What are your current resources?

Write down your current monthly income. Include all dependable sources of monthly salary or wages, such as:

- Disability benefits
- Public assistance
- VA benefits
- Social Security benefits
- Savings accounts
- Your spouse's or children's income
- Insurance policies (or other policies) against which you may temporarily borrow money

- Other dependable income

3. What are your other debts and expenses? List your other expenses for essentials. It is better to give up a second car, a boat, or credit cards than to lose your home. Be realistic.

This list should include:

- Monthly food cost
- Average monthly utility bills
- Monthly loan payments
- Monthly credit card payments
- Annual insurance premiums (home, auto, medical, etc.)
- Alimony or child support payments
- Unpaid past and future medical expenses
- All other current obligations

4. What are your plans?

Think about how you can manage this crisis and come up with a plan to solve the problem. Your attitude, outlook, and plan will influence how far the lender will go to help you. Don't give up hope!

There may be ways to get financial assistance. If not, then it is still possible to reduce your losses and prevent foreclosure proceedings—even if you need to give up your home. Foreclosure can ruin your credit rating for years.

Glossary

You may want to familiarize yourself with the following terms before speaking with lenders.

Delinquent Payment: A mortgage payment that is not paid on the day it is due.

Late Charge: A fee charged by your lender to help pay for the added work of collecting payments that arrive after the due date. Repeated late payments are a violation of your contract with the lender.

Default: A mortgage is in default when two or more payments are overdue. Mortgage contracts generally allow for foreclosure to start when a default exists, though most lenders will not act that quickly.

Forbearance: An oral or written agreement to repay the delinquency over a period of time so that the loan can be brought up to date.

More Sources of Help

In many communities, other sources of help may also be available.

1. Your county Cooperative Extension Service Family and Consumer Sciences agent can provide educational assistance regarding household financial and family crisis management. To find your county agent, visit <http://solutionsforyourlife.ufl.edu/map/index.html>.

2. Local government or the United Way may fund community organizations that provide housing and credit counseling.

3. Your credit union, labor union, or local religious or social service agencies may offer help and counseling.

4. If your mortgage is an FHA-insured (HUD), VA-guaranteed, or USDA loan, contact the appropriate local government office. To locate a HUD-approved housing counseling agency near you, go to: <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>.

5. The Powerpay program is a resource that can be used to both organize your debts and repayment schedules. It is available at <http://www.powerpay.org>. The Web site includes a system where you can enter your debt information and the program will produce a calendar of payments. It helps you prioritize your debts and see the impact of debt consolidation.

6. If you have questions about how your credit score can be impacted by late mortgage payments or foreclosure, it is best to get the information from an authoritative source: Fair Isaacs and Company. They have information for consumers on their Web site (<http://www.myfico.com>), including a helpful section

of commonly asked questions about how different events can affect your credit score.

References

U.S. Department of Housing and Urban Development. (n.d.) *How to avoid foreclosure*. Retrieved December 4, 2007, from http://www.hudclips.org/sub_nonhud/cgi/pdfforms/pa426h.pdf