

Seller Alternatives to Foreclosure

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So, your house is in foreclosure...Now what? You are not alone. Causes of mortgage defaults may include poor money management, over extended financial obligations, loss of income, loss of employment, divorce, long term illness, poor financial management or apathy toward financial obligations. Try to look at the situation without attaching your emotions. From a strictly business viewpoint, you can more successfully analyze which option might best suit your needs and desires and move toward resolving your financial difficulty. One very important thing to remember: Time is of the essence, so take quick action in order to allow your self enough time to complete the chosen process.

Do Nothing – If a homeowner does nothing, they most likely will lose their home at foreclosure auction. Loan applications generally ask if the applicant has ever been foreclosed upon. Credit reports also disclose this damaging information. Most homeowners prefer to preserve their personal integrity by attempting some form of resolution.

Talk to a Housing Counseling Agency – Obtain a useful list of Housing Urban Development (HUD)-approved housing counseling agencies at 1-800-569-4287 or visit <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm>

Converting your ARM to a Fixed Rate – Millions of adjustable rate mortgages that were initiated in 2004 and 2005 are adjusting at higher interest rates, causing increased mortgage payments that can significantly affect family budgets. Many lenders will convert homeowner rates to a fixed schedule. You can't qualify if you don't ask!

Refinance – If your credit is not too badly damaged and loan to value ratios on your property are low enough, you might qualify to refinance your current mortgage loans. Recent tightened restrictions on home loan refinance programs have caused increased difficulties for mortgagors. With this option, there should be equity in the home.

Reinstatement – A lump sum payment by remitting the entire default amount plus interest, attorney fees, late fees and taxes. You can request an updated statement of total amount due to bring the loan current by contacting your lender.

Loan Modification – Utilizing the existing mortgage company to change the interest rate, add missed payments to the balance or extend the terms of the loan. This option can be successful for homeowners who are just recently back on financial track due to say, re-employment. The lender will require a substantial down payment toward the total arrearage and then divide the remaining balance over 12 to 18 months. These payments will be required in addition to the original payments on the note.

Forbearance – Lender may be able to arrange a repayment plan based on the homeowner's financial situation. The lender may even be able to provide a temporary payment reduction or suspension of payments. Information will be required from the lender to show that you are able to meet the new payment plan requirements. Both loan modifications and special forbearance agreements are legal contracts so be sure you can meet the revised obligation or you can put yourself in jeopardy of renewed mortgage default proceedings.

Partial Claim – Offered on FHA loans of a second loan to include back payments, costs and fees.

Deed in Lieu of Foreclosure – Give the property back to the bank instead of the bank foreclosing. Banks generally require the home be well maintained, all mortgage payments and taxes must be current. Your lender will fully analyze whether your current title is burdened by subsequent interests...I.E. Is the title clean? If not, a formal foreclosure will extinguish those other encumbrances and the lender may see this as their best option.

Bankruptcy – This option can liquidate debt and/or allow more time. Bankruptcy law changes of 2005 now require more stringent filing rules. Debtors must qualify by meeting an "income means test" and complete pre and post petition trustee-approved credit and financial counseling courses. Certain debts such as student loans and some taxes cannot be liquidated.

- Chapter 7 (Liquidation) Complete settlement of personal debt
- Chapter 13 (Wage Earner Plan) Payments are made toward a plan to pay off debts in 3 – 5 years.

Sale – Homeowner may sell the home without lender approval for a conventional home sale. If the property has equity (money left over after all loans and monetary encumbrances are paid), the homeowner will get cash from the sale. At the other end of the spectrum, a short sale, also known as a pre-foreclosure sale, can be negotiated with your lender by your real estate professional if what is owed on your home is more than the property's value.