

Avoiding Foreclosure

The last thing any homeowner wants to think about is losing the family home. No one expects to lose their house to foreclosure, but by understanding the foreclosure process and what may lead up to it, you can be in a better position to recognize and address potential problems that may impact your ability to make every mortgage payment on time.

What is foreclosure?

In the contract you signed when your mortgage lender loaned you money to buy your house, you agreed that if you can't repay the loan, the lender can foreclose to take ownership of the house.

If you do not pay your monthly mortgage payment, you are technically in default on your mortgage. State laws vary, but generally, a loan that is as little as 90 days delinquent can be considered in foreclosure.

Your lender may send you a notice indicating that they are starting foreclosure proceedings, but don't wait; take steps to prevent a foreclosure as soon as you realize you are having trouble paying the mortgage!

- Learn to recognize the [warning signs](#) of foreclosure.
- Know what [early steps](#) you can take to avoid foreclosure.
- If you are in the midst of a foreclosure, know the [dos and don'ts](#).
- Know [where to get help](#) in dealing with issues that could lead to foreclosure.

Have a Plan B.

Don't wait until you're in a financial predicament before assessing your options. The time to develop a backup plan is not when things have gotten so bad that you are facing foreclosure, but when things are going well and you can prepare for the unexpected "what if's" that happen in life.

What to do in special circumstances...

If you are a victim of a natural disaster.

If your property has been damaged or destroyed by a tropical storm, hurricane, tornado, flood, or other disaster, talk to your lender immediately. They often have special disaster relief options to help you.

Check our [Protection](#) section for more information on help after a natural disaster.

If you are a service member on or recently released from active duty.

There are special financial relief options in place for service members through the Service Members Civil Relief Act (SCRA). Talk to your lender about them.

If you are a veteran.

The [Department of Veterans Affairs](#) has produced a streaming video to provide information to vets facing foreclosure.

What are the warning signs of foreclosure?

Unexpected life changes are often a contributing factor to foreclosure – especially those that impact your finances, such as:

- Loss of employment or reduction of hours
- Major illness or injury
- Divorce or separation
- Death of a spouse

What makes it so difficult to think about foreclosure during times of crisis is that you are so focused on the problem at hand and not likely to have the time or energy to think about how it could impact other aspects of your life. That is why a plan that was developed before any problem starts is the best protection.

If you have a "Plan B" in place, you won't have to organize your finances while you are stressed about finding a job or dealing with a major illness. The plan will already be done – you will need to just follow it.

Financial warning signs

There may not be a major life change to signal potential trouble – you simply may be having a difficult time properly managing your finances. Don't be fooled into thinking your credit card problems won't affect your mortgage. It is important to realize that financial difficulties in one area can, and often do, spill over to other areas. These difficulties are all warning signs of financial problems that can lead to foreclosure on your home if you do not act quickly. They include:

- Maxing out credit cards
- Using credit to pay for day-to-day expenses, such as groceries, utilities, etc.
- Being unable to pay your bills on time
- Paying only the minimum amount on credit cards
- Applying for new credit cards after maxing out on existing ones
- Having to choose which bills to pay

Talk to a housing counselor immediately if you see these signs (see sidebar for help finding a legitimate counselor). You may be able to get your finances back on track before foreclosure becomes a reality.

Identifying a legitimate credit counselor

Do your research; a disreputable counselor can actually do more harm than good.

Call 888-995-HOPE to get help. If you are researching agencies on your own, consider the following:

Most HUD-approved housing counseling services are free, so if an agency charges a fee, **look very carefully at what type of services you are being charged for.**

Is it accredited by a recognized accreditation organization?

How long has it been in business?

Does it have audited financial statements?

Does it have community presence? In other words, does it have branches that are open to the public?

Does it have the required licenses to do business in the state where you live?

Have complaints been filed with the Better Business Bureau in the community where it is located?

Does it provide a written "Action Plan" after each counseling session?

You can find a credit counseling agency in your local phone book or by contacting the [U.S. Department of Housing and Urban Development \(HUD\)](#) at (800) 569-4287 on weekdays between 9:00 a.m. and 5:00 p.m. Eastern time. You can find a list of HUD-approved agencies on their Web site.

Early Steps to Prevent Foreclosure

You already know a Plan B is important, but what should it include? The first steps to take in creating your plan are to:

- **Save money.**
Put away some money each month to have an emergency fund in case something unexpected happens, such as losing your job. You should have several months of housing costs saved to protect you from unexpected financial problems.
- **Reduce expenses.**
Think about where you can save money; for instance, temporarily canceling cable or your gym membership. By paring down to the bare necessities, you may be able to save a significant amount of money. And even if it doesn't seem like enough of a savings to make a big difference, remember – every little bit helps.

Use our [budget worksheet](#) [PDF 73K] to help think about which changes you can make if you find yourself facing financial difficulties.

If you've put your Plan B into action and still find yourself having trouble paying the mortgage, you should:

- **Call your lender.**
This is the single most important thing you can do. Lenders want borrowers, not properties – they would prefer to see you keep your home. Most will work with you while you get back on your feet.
- **Be honest with your lender.**
Different situations require different solutions. It will matter to your lender to know if your financial problems are temporary, for example, due to an injury that puts you out of work for a few months, or are more long term, such as a cut in pay or a layoff.
- **Know what you owe.**
Have a clear picture of what your debts are and make your mortgage the priority if you have to make choices. Debt collectors can be very aggressive, but if you can't pay all your debts, make sure your home is protected from foreclosure by paying your mortgage.
- **Talk to a housing counselor.**
A non-profit housing counseling agency may be able to help you restructure your bills so that you have an easier time paying them. Additionally, they can help you create a budget that suits your specific needs.
- **Contact a housing non-profit.**
A housing non-profit can give you valuable advice. The HOPE National helpline, 888-995-HOPE, is dedicated to helping homeowners facing foreclosure 24 hours every day. Spanish – speaking counselors are available.

Making the call...

When you call your lender, be sure to have your account information handy and be ready to give a summary of the financial problems you are having. You should also have recent income statements and your household budget with you. Be prepared for more than one conversation. Your lender may require that you complete a "loan work-out" package – you may not be eligible for help without it, so complete it as soon as you receive it.

Questions to ask...

How much time is the lender willing to give you to complete a work-out?

What are your obligations under the work-out package?

What are the specifics? Be sure to ask what is due and when.

Will a foreclosure sale of your property be put on hold while your lender looks at the possibility of a work-out package?

Visit the [Mortgage Bankers Association's Foreclosure Prevention Resource Center](#) for advice on calling your lender for assistance.

Finding a credit counselor

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Dos and Don'ts of Foreclosure

Facing a foreclosure is a scary thing, but there are things you should do – and shouldn't do – to avoid making the situation worse.

- **DO answer the phone and read your mail.**
Avoiding your lender won't make the problem go away. In fact, it will only make the problem worse. Your lender may be able to help you, so be sure to answer the phone and read any mail they may have sent you.
- **DO realistically assess your situation.**
Are your financial problems temporary? If you are temporarily out of work and will be fine once you find a new job, call your lender. Lenders may be able to offer a forbearance or repayment plan.
- **DO consider your options.**
If you are not in a position to keep your home, consider selling it before you face a foreclosure. If you have already missed a mortgage payment, call your lender. There may be purchase options, like a short payoff or assumption (see sidebar) that help avoid foreclosure.
- **DO be aware of certain financial responsibilities.**
Even if your lender sells your property, you may still be responsible for the difference in the sale price and what you owe. It is also important to realize that you may be responsible for certain taxes when a lender forecloses on your property. However, the IRS does provide tax relief in [certain situations](#).
- **DO protect your wealth.**
Recognize that you may have significant equity in your property that must be preserved.
- **DON'T move out of your home.**
In order to qualify for assistance, homeowners are often required to be living in their home. Be sure to talk to your lender before you think about moving.
- **DON'T ignore the problem.**
It may be possible to keep your home, but if you wait to take action, fewer options will be available. You have certain rights and can take certain actions to help you keep your home; however, you only have a limited amount of time to assert those rights or take those actions.

Talk to a lawyer or legal aid organization, since your rights vary from state to state. Most states and large cities have legal aid organizations; to find one near you, go to the [Legal Services Corporation](#), a government-sponsored organization that provides high-quality civil legal assistance to low-income Americans.

- **DON'T convince yourself you can afford a home if you can't.**
Most lenders will only lend what a borrower can afford, but some

A note about mortgage documents

Understanding the terms:

If you are working with your lender to keep your home, known as retention, there are several options:

Reinstatement: Your lender may agree to let you pay the total amount you are behind, in a lump sum payment and by a specific date. This is often combined with forbearance when you can show that funds from a bonus, tax refund, or other source will become available at a specific time in the future. Be aware that there may be late fees and other costs associated with a reinstatement plan.

Forbearance: Your lender may offer a temporary reduction or suspension of your mortgage payments while you get back on your feet. Forbearance is often combined with a reinstatement or a repayment plan to pay off the missed or reduced mortgage payments.

Repayment Plan: This is an agreement that gives you a fixed amount of time to repay the amount you are behind by combining a portion of what is past due with your regular monthly payment. At the end of the repayment period you have gradually paid back the amount of your mortgage that was delinquent.

Loan modification: This is a written agreement between you and your mortgage company that permanently changes one or more of the original

less scrupulous lenders will allow borrowers to get in over their heads. In some cases, a home that was affordable becomes unaffordable due to changes in your life circumstances. If your mortgage is truly beyond your means, consider selling your home and purchasing a less expensive home or renting for a period of time before the only option left is foreclosure. Call your mortgage company; they may be able to help you avoid foreclosure by agreeing to an assumption or a short payoff.

- **DON'T fall victim to a scheme.**
Some people want to profit by your misfortune by offering to contact and conduct all work-outs and negotiations with your lender on your behalf – for a fee. View a helpful [video](#) Freddie Mac posted YouTube titled "Foreclosure Scams 101."

Recognizing predatory lenders

Unfortunately, when dealing with foreclosure not all mortgage lenders or credit repair companies have your best interest in mind. Beware of predatory lending traps, such as:

- **High-Risk Second Mortgages.**
These may seem like a good option, but be cautious – they could further complicate the problem.
- **Unsolicited "Loan Approvals."**
Predatory lenders often send homeowners information stating that they are pre-approved for a loan. Although a loan can look very attractive if you are desperate to avoid foreclosure, talk to your lender, not a stranger. If refinancing is your best option, your lender will let you know.
- **Refinancing to Access Equity.**
By stripping your home of equity, you may actually be going further into debt – decreasing your chances of keeping your home. Again, talk to your lender or a reputable housing counselor before making any decisions.
- **Equity Skimming.**
A buyer may offer to pay off your mortgage or sell your property if you sign over the deed and leave your house. Don't do it. Your lender may be able to help you, but usually only if you still live in your home.
- **Phony Counseling.**
[Reputable counseling](#) is readily available – often free of charge. Be sure you are talking to a reputable agency or the counseling could hurt instead of help you.
- **Don't Sign What You Don't Understand.**
Some predatory lenders can be aggressive in trying to get you to sign paperwork. If you are unsure, don't sign. Take the paperwork with you and go over it with a trusted advisor. If the paperwork is legitimate, the lender should have no problem if you want to review it.

terms of your note to make the payments more affordable.

If you and your lender agree that you can not keep your home...

There are a number of liquidation terms you should understand:

Short Payoff: If you can sell your house but the sale proceeds are less than the total amount you owe on your mortgage, your mortgage company may agree to a short payoff and write off the portion of your mortgage that exceeds the net proceeds from the sale.

Deed-in-lieu of foreclosure: A Deed-in-lieu of foreclosure is a cancellation of your mortgage if you voluntarily transfer title of your property to your mortgage company. Usually you must try to sell your home for its fair market value for at least 90 days before a mortgage company will consider this option. A deed-in-lieu of foreclosure may not be an option if there are other liens on the property, such as second mortgages, judgments from creditors, or tax liens.

Assumption: An assumption permits a qualified buyer to take over your mortgage debt and make the mortgage payments, even if the mortgage is non-assumable. As a result, you may be able to sell your property and avoid foreclosure.

While refinancing is not necessarily a good option when facing foreclosure and can sometimes even be a predatory practice, there are instances where it may help. Talk to your lender to see if refinancing is an option for you.

Avoiding Mortgage Fraud

Mortgage fraud is becoming more common. To protect your home and your home equity it is important to understand and recognize the signs of mortgage fraud. It's also important to know how to report fraud to state and federal authorities so they can stop scam artists from preying on innocent borrowers.

Scam artists will often target homeowners already struggling to meet their mortgage commitments or anxious to sell their homes. There is help available when facing financial problems or foreclosure, but make sure you are dealing with a reputable organization before getting involved. Fraud schemes may sound good, but ultimately the goal is to take your home – not help you keep it.

Here are several common frauds being reported today:

Foreclosure Rescue Scheme

If you have fallen behind on your mortgage payments, this may seem like an attractive solution – but beware. A foreclosure rescue scheme often begins with a scam artist offering a promise to pay off your delinquent mortgage, allowing you to stay in the home as a renter with the option to purchase the home back when your financial situation improves.

But what really happens is a series of steps designed to cash out the equity in the home and disappear:

- As part of the "rescue" the homeowner will be required to deed the property to a new borrower who is often "investing" in a rental property, but who is really part of the scam.
- The proceeds of the sale pay off the delinquent loan and the new borrower removes all the equity in the house, never to be seen again.
- The distressed homeowner is now merely a renter in a home they no longer own, unaware that the new borrower is not making payments.
- When the new borrower defaults on the loan, the homeowner is evicted from the home – they have lost the house and all the equity in it.

Scam artists are very crafty and will often vary the scheme depending on the homeowner they are talking to, so be cautious. Some warning signs that a scam artist may be trying to set you up as a victim of a foreclosure rescue scheme include:

- Being approached by a stranger with an unsolicited "rescue" offer.
- Receiving an unsolicited call, mail or flyer about "foreclosure rescue" or saving your home.
- Participating in a complicated deal that you don't fully understand.
- Signing documents that have blanks or false statements. Regardless of what you are told, this is never okay.

The best solution when you face financial difficulties that may endanger your home is always to talk to your lender or a [reputable counselor](#).

Mortgage Fraud Video Resource

View a helpful video Freddie Mac posted on YouTube to help educate distressed homeowners avoid mortgage fraud.



Reporting Mortgage Fraud

If you suspect that you have been a victim of mortgage fraud or are aware of a possible scam, you can report it by calling the Mortgage Fraud Hotline 1-800-4FRAUD8 (1-800-437-2838). You can also contact your state's attorney general office. Locate your state's attorney general through the [Consumer Fraud Reporting website](#).

A note about mortgage documents:

Some scams involve falsified documents. You may be told a blank space will be filled in later – or that "stretching" the truth is okay and "done all the time."

It's not true – it's fraud and it's illegal.

Not only could you put yourself in a bad position by committing fraud, but if your documents falsified your

Illegal Flipping

Flipping is a legitimate practice where an investor purchases a property in need of repairs or upgrades, makes the necessary changes to the property in a very short amount of time and sells the home for a profit.

We've all seen the TV shows about flipping and they're fun to watch. But there are scam artists who use flipping to make money illegally.

Often times, the scam artist will offer much more than the asking price of a home with a stipulation that the "surplus" amount over the asking price is given back to the borrower at closing.

At closing, the inflated value of the home will be attributed to home improvements that were never made. The scam artist will pocket that surplus money and default on the loan.

As a homeowner, especially one whose house has been on the market a long time, this may seem like an attractive deal but remember – falsifying documents is fraud.

income, you could be risking your home if you've purchased more than you can really afford.

Some hints to make sure your documents are all in order include:

The appointment to sign loan or closing documents should be made when there is ample time to review each document, and not be rushed.

Never lie on the documents

If you are encouraged to falsify any documents by your lender, find a new lender

Look at all the spaces in the documents to make sure all information is accurate

Pay special attention to your income, assets, and declared debt as shown on your loan application. Stop the closing if the information presented is incorrect.

Never sign anything with blanks

If you have questions, don't sign until your questions have been fully answered

Have a trusted friend or family member review the documents with you

If you are concerned, talk to a mortgage/housing counselor

Where to Get Help

Your biggest ally if you encounter difficulty paying your mortgage on time is often your lender. Don't wait – call them as soon as you know you are having problems. The HOPE National Helpline is open 24 hours and provides free assistance. **Contact them at 888-995-HOPE.**

Additional housing agencies that may be able to help you with confidential budget and debt counseling include:

- [U.S. Department of Housing and Urban Development \(HUD\)](#) at (800) 569-4287
- [National Foundation for Credit Counseling](#)
- [NeighborWorks® America](#)
- [Mortgage Bankers Association's Foreclosure Prevention Resource Center](#)
- [National Council of LaRaza](#)
- [Asian Real Estate Association of America \(AREAA\)](#)
- [Association of Community Organizations for Reform Now \(ACORN\)](#)