



How Can I Avoid Foreclosure?

Buying a home can be a dream come true for many Americans. Holding on to that house can sometimes turn into a nightmare though. Things like unexpected medical bills or other financial crises can deplete the funds you would have put toward a mortgage. Or maybe you have gotten yourself over your head in debt and are being pressed on all sides to fulfill your obligations. You may also have trouble making your mortgage payments if you started out in an adjustable rate mortgage and your monthly payment has reset and jumped way up. Whatever the reason, missing mortgage payments is a serious matter; it could land you in foreclosure.

Foreclosure is the event that takes place when you cannot pay your mortgage. The lender has the legal right to repossess your house and sell it to settle your loan debt. Not only does this mean that you lose your home, but it will severely harm your chances of being able to qualify to buy another home in the future. A foreclosure is very damaging to your credit score and your trustworthiness as a buyer. If you have found yourself missing payments and the bank is threatening to foreclose, there may be a few things you can do to avoid this messy situation and the consequences it carries.

First try talking with your lender. Let them know what the problem is. Lenders would generally rather work with you to set up some sort of payment plan rather than have to kick you out and sell the home. Contact your mortgage lender as soon as you can to discuss your options.

Depending on your situation, your lender may suggest one of the following foreclosure alternatives: special forbearance, mortgage modification, partial claim, selling your home, or deed-in-lieu of foreclosure.

Special forbearance is usually reserved for cases of a serious income reduction or living expenses increase. One of these situations could arise from the loss of a job or the addition of a new child to the family. If the lender finds that your claims are legitimate, they may make a new payment schedule for you to help you get back on track and they may offer a break in payments, or at least a reduced payment option until you can get back in control of your finances.

A mortgage modification is another solution and it basically means refinancing. This means taking out a new loan on your home that completely pays off the first one. In the process you may even get a better interest rate and lower payments on your mortgage. The downside is that there are closing costs and fees associated with the new loan and these could be prohibitive. Talk to your lender about the possibility of rolling your closing costs into the balance of your new loan.

A third option may be a partial claim. This means receiving help from the government through the Federal Housing Authority. If you are more than four months behind on your mortgage but less than twelve behind and if you are capable of making your full mortgage payments from this point on, you may qualify. In this situation, HUD will pay your lender the delinquent amount. You will have to repay the government, however, and you will have a lien placed on your home until you repay them your debt. Fortunately your debt to the government is interest-free.



You might also have to consider selling your home to evade foreclosure. This is not always the most attractive option, but if it will save you from the problems of foreclosure it may be worth the sacrifice.

Finally, you may be able to participate in a “deed-in-lieu of foreclosure” transaction. This is truly an option of last resort. Before you can take this step, you must have already tried to sell your home, without success. This option means handing your deed over to your lender. The only benefit of this is to save your credit from the greater damage that would be done by a full foreclosure proceeding.

Obviously the earlier you realize the seriousness of missing mortgage payments, the better off you will be. Developing a solution as soon as you miss your first payment may be the best way to stave off foreclosure.