Hope 4 Homeowners

# Getting Back on your Feet Again

## Various Options to
## Overcome Foreclosure Proceedings

***Last Updated June 4, 2010***

# Introduction

*financial crisis*

While many of the US economic indicators are beginning to suggest that the country is moving out of a recession, many homeowners are still facing the realities of the worst housing and national financial crisis we have ever faced in our nation.

*1 in 4 homeowners are underwater*

As of May, 2010, nearly 1 in 4 homeowners in the United States still find themselves in a home that is under water, that is, the value of the home is less than the mortgage that is owed on the home.  However, in a recent Harris Interactive survey, only 1% of homeowners who owe more than their home is worth think simply walking away would be a good option if they were no longer able to pay their mortgage.

*homeowners are feeling stressed*

Through no fault of their own, many Americans now find themselves in a situation where they no longer are able to make their monthly mortgage payment, they can't sell their home for more than they owe on it and they are beginning to experience the anxieties associated with foreclosure notices from their bank.  This situation has been described by many homeowners as one of the most stressful events of their lives.

*homeowners have options*

If you have received a foreclosure notice from your bank or if you anticipate that you may receive one shortly, it is not necessary to just give in to the bank. You still have many options available to you. This report has been written to provide a number of options for you to consider that can help you get back on your feet again. Some of these options are quite complex in nature and will most likely require that you contact a professional to assist you in determining which is best for you. However, the first place to start is with information.

The following table is meant to define your options should you find yourself in a foreclosure situation or contemplating a foreclosure. As you will see, this table suggests that there are many options that you have available to you besides just allowing the bank to repossess your home. However, the options are many and quite sophisticated. If you find the options confusing, and even if you think you might understand all the options, it is important that you consider working with a professional to assist you in determining which is the best option for you.

| | | Consider Your Status as a Homeowner (Circle each item that applies to your situation, i.e., if you have cash available, circle each "Yes" under "Have Access to Cash". Those options that have the most circles may be best for you.) | | | | |
|---|---|---|---|---|---|---|
| **Option** | **Definition and Considerations** | **Have Access to Cash** | **Home Worth Less Than Owed** | **Employed** | **Received Foreclosure Notice** | **Able to Make Payment** |
| **Reinstatement** | **Definition:** Reinstatement simply requires that a homeowner make payment on all back payments including interest, penalties, fines, fees and other cost necessary to the bank at any time before the bank forecloses on the property. The homeowner can request the amounts due from the bank, make payment and the mortgage is reinstated back to its original status.<br><br>**Considerations:** This option is a good option for you if you have access to cash, are employed and can make your house payments in the future. It doesn't matter if you are under water. The bank only cares that you make your payments in a timely manner. | Yes | Yes or No | Yes or No | Yes or No | Yes or No |
| **Repayment Plan** | **Definition:** A repayment plan is put in place by negotiating directly with your lender and usually entails making your usual monthly payment in addition to an additional amount to make up for past due payments, fees, penalties and other cost imposed on you by your lender.<br><br>**Considerations:** This is a plan that works well for homeowners who may have lost their job or income for an extended period of time, found themselves behind in their payments, are now reemployed and whose income allows them to make payments in addition to their regular monthly payment. Most lenders will negotiate with you in this situation, however, they may require that you qualify for the repayment plan just like it was your initial loan. | Yes or No | Yes or No | Yes | Yes or No | Yes |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Mortgage Modification** | **Definition:** A mortgage modification is typically negotiated by the homeowner with their lender. A lender has to be actively pursuing loan modifications as not all lenders are interested in doing so. Technically, either the interest rate, the principal amount or the term of the loan are modified in order to reduce the monthly payment and allow the homeowner to stay in the home.<br><br>**Considerations:** Your lender may or may not be in the business of offering mortgage modifications. If they are in the business of modifying mortgages, they will consider reducing your mortgage if they see that you are a significant foreclosure risk. They would prefer that you stay in the house and make some payments to allow them to recoup most of the original mortgage and not incur the costly expenses of the foreclosure process and possible loan losses. | No | Typically Yes | Yes | Typically Yes | Typically No |
| **Rent the Property** | **Definition:** If you are fortunate enough to have a home in a market where the potential monthly rental fee exceeds your monthly mortgage, it is possible to convert your home into a rental property, collect the monthly rent and pay your mortgage from the rental fee.<br><br>**Considerations:** This situation often occurs when a homeowner has lost their job and does not have sufficient income to make the monthly payment on their home. This option would allow the homeowner to retain their equity in the home, retain their good credit and hold a valuable asset in the long term. However, oftentimes, the cost of renting the property is more than the monthly mortgage and includes upkeep, insurance, taxes and other cost that need to be considered to determine if this is a good option. | Typically No | Yes or No | Not Sufficiently | No | No |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Deed in Lieu of Foreclosure** | **<u>Definition:</u>** If foreclosure is eminent, the homeowner may determine to give title to the property back to the lender without going through the foreclosure process. The homeowner loses all equity in the home and will be required to move from the property.<br><br>**<u>Considerations:</u>** It is important to negotiate the specific terms of a deal when considering a deed in lieu of foreclosure. The homeowner desires that the lender not report the transaction as a foreclosure to credit bureaus, however, most often the homeowner is reported. | Typically No | Yes or No | Yes or No | Typically Yes | No |
| **Bankruptcy to Retain Home** | **<u>Definition:</u>** This type of bankruptcy is the legal process of eliminating debts such that the homeowner can afford to continue to pay the mortgage payment. This type of bankruptcy is only available in some states in under certain circumstances.<br><br>**<u>Considerations:</u>** Bankruptcy should only be considered as a last resort as it has a lasting impact on a homeowner's credit and the ability to borrow in the future for many years to come. It can work if debts are eliminated such that the mortgage payment can be made. | No | Yes or No | Yes or No | Yes or No | No |
| **Refinance** | **<u>Definition:</u>** A refinance is the ability that a homeowner may have to refinance their home such that it allows them to make their monthly mortgage payment.<br><br>**<u>Considerations:</u>** If the homeowner is employed, has good credit and has a home with a value higher than the principal of the loan, then a refinance is a good possibility if the homeowner can qualify for the refinance. By increasing the length of the term or getting a better interest rate, it is possible that the homeowner will be able to get a lower monthly payment and avoid foreclosure. | Typically Yes | Yes | Yes | Yes or No | Typically No |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Servicemembers Civil Relief Act (military personnel only)** | <u>**Definition:**</u> If a member of the US military is experiencing financial distress due to deployment, and if the financial obligation was entered into prior to the deployment, then it is possible that the homeowner may qualify for relief under the SCRA. If a homeowner is in this situation, they may also qualify to have other consumer debt payments reduced in addition to their mortgage.<br><br><u>**Considerations**</u>: This option is only available to active military personnel. If you are in this category, there are many attorneys in the US that will assist you in obtaining qualifying debt reductions. | Yes or No | Yes or No | Active Military | Yes or No | Yes or No |
| **Sell the Property** | <u>**Definition:**</u> A homeowner facing foreclosure may elect to sell their home as long as they are able to pay off the amount due from the proceeds of the sell and any additional cash that they may have access to.<br><br><u>**Considerations:**</u> If a homeowner is under water on their home, i.e., they owe more than the home is worth, this option does not work unless they have access to additional cash. Most homeowners facing foreclosure have used up their cash resources and so are not in a position to sell the property at a loss. | Typically No | No | Yes or No | Yes or No | Yes or No |
| **Short Refinance** | <u>**Definition:**</u> A short refinance is the refinancing of a mortgage by a lender for a homeowner who is currently in default on their payments. Typically the new loan amount is less than the outstanding principal and the difference is forgiven by the lender.<br><br><u>**Considerations:**</u> Because foreclosure is an expensive option for a lender, the lender may opt to forgive a portion of the principal amount due by the homeowner. Therefore, a short refinance is an option when the lender is striving to avoid the significant expenses of foreclosure. | Typically No | Typically Yes | Yes | Yes | No |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Short Sale** | **Definition:** If a homeowner is under water on their home and then experiences a financial hardship such as a job loss, divorce, excessive debt, mortgage payment increases from variable rate loans or other reasons, often lenders will negotiate to sell the home at a value less than the amount owed and release the homeowner from the excess principal owed.<br><br>**Considerations:** By conducting a short sale, the homeowner avoids the foreclosure process and minimizes some of the negative impacts. For example, often times the homeowners credit rating is not damaged as badly as from a foreclosure and they may be able to qualify for a new mortgage in less than 2 years versus 5 years from a foreclosure. A short sale is a complex process and requires significant skills and effort to be successful. | No | Yes | Yes or No | Yes | No |

After reviewing the many options provided above, you may begin to feel hope that one of these options might work for you. The Hope4Homeowners program was created to assist homeowners that may be facing a possible foreclosure work through the options and determine which is best for them. For a free consultation and to receive additional insights and information, please contact your local Hope4Homeowner professional who is trained to assist you in solving these challenging and difficult issues.