

# 1 Real Estate Advisor

## Foreclosures Explained

There are a lot of alarming statistics out there about foreclosures. But when you understand what a foreclosure is and how it works, it takes some of the fear out of the unknown.

To break it down to its bare bones, a mortgage foreclosure happens when a lender exercises its lien against a borrower's home in order to sell the house to pay off the mortgage loan. This, of course, only happens after the borrower has failed to make mortgage payments for an extended period of time, has ignored notices that the payments are behind, and hasn't bothered to call the lender to see what can be worked out. So how did we get from popping the champagne cork on closing day to having our belongings set out on the lawn? It didn't happen overnight:

### Step 1

#### Notice of default is recorded by the bank

This happens after you've missed a payment. In the past, this happened only after several payments were missed. Banks now are trying to move homeowners to action long before the point of no return. So you've missed one or several payments, and now the bank officially records the notice of default.

### Step 2

#### Opportunity to reinstate the loan

You have the power to stop the foreclosure process anywhere along the way-until five days prior to the auction of your home. How do you reinstate the loan? Bring your loan payments current plus the late fees and whatever penalties are assessed, and you have just reinstated your loan. You've stopped the foreclosure.



### Step 3

#### Date of foreclosure is set by the bank

But what if you can't pay the back payments and other fees? We've come to the third step of the foreclosure process: the bank sets a date of foreclosure. Typically, the date is three months (about 90 days) after the bank sets the notice of default. You are allowed to live in the house until the actual date of foreclosure. You cannot be evicted or thrown out of the house until this date. You still have time to come up with that money.

### Step 4

#### Notice of trustee sale is prepared, published and posted

Now the bank prepares the notice of trustee sale. The bank will publish it, The bank then mails you a copy of the notice and physically posts it on the outside of the house. You still have time to bring the payments current.

### Step 5

#### The house is sold at a foreclosure auction

We've come to the final step: the foreclosure auction sale. If you are still living in the house and it is sold to a bidder at the auction, the winning bidder can have you evicted by the sheriff within 24 hours. If the house doesn't sell, the bank will show the house just like you would if you were selling the house yourself. The bank may also have you evicted within 24 hours, or the bank may decide to let you stay until the house sells.

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## The Bottom Line

If you miss a payment, don't let it turn into two. Find the money, even if you have to borrow from family or friends. Although the process can be stopped anytime up to five days before the sale, the earlier you intervene, the easier it is to stop.



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