

# How to Save Your Home from Foreclosure

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Thanks to fierce competition among lenders, a dizzying array of mortgage options, and government policies to encourage home buyers, more people than ever before are able to buy homes. Unfortunately, the increase in homeownership has been accompanied by record foreclosure rates. Just a couple of missed mortgage payments can start foreclosure proceedings, and before you know it the house you've worked so hard to buy can be taken away from you. Worse yet, you may still end up owing money if the sale of the home doesn't cover your loan balance, and a foreclosure hits your credit like a freight train. If you're threatened with foreclosure you may be able to prevent this scenario, but you've got to act fast.

## STEPS TO TAKE:

**Make your mortgage payment your top priority.** If you're in serious financial trouble, don't worry about credit card bills, personal loans, and other unsecured debts until after you pay your mortgage. Falling behind on these debts can cause you to accumulate fees and can damage your credit, but the consequences are not as serious as falling behind on your mortgage, so prioritize your debts accordingly. You can always get a second job and catch up on the other debts.

**Get help.** If you're having trouble making payments you may benefit from credit counseling or a debt management program that includes housing counseling. Your lender may have such a program, or you can see if your local housing authority or extension service offers debt counseling or foreclosure avoidance services. If not, Choose a credit counseling agency carefully, as some agencies charge exorbitant fees that will make you even worse off.

Depending on your circumstances a debt management program may also be a good option. In the U.S., the Department of Housing and Urban Development (HUD) maintains a list of credit counseling and debt management agencies approved to work with HUD loans, and they may also be able to help with other lenders. There may also be government or charitable programs to provide financial or legal support to help you avoid foreclosure.

Finally, you may also want to consult an attorney, especially if your situation may be the result of predatory or deceptive lending practices. In any case, get help quickly so that you can take advantage of all possible remedies, and above all be careful about who you deal with.

**Contact your lender immediately:** If you can't make your full monthly payment. Don't wait for a letter from the bank, and certainly don't ignore their correspondence. Lenders generally don't want to foreclose on properties, and they'll generally be willing to work with you if you make a good-faith effort to make payments and if your inability to do so is temporary.

You will most likely need to provide the lender with bank statements and other financial documents so that they can review your financial situation. They may agree to extend your grace period for late payments or to allow you to skip anywhere from 1-6 payments over a 1-2 year period (a forbearance). They might also accept reduced payments for up to 18 months. Bear in mind that these remedies are all temporary, and you'll need to "play catch-up" once you're back on your feet.

**Request a restructuring of the mortgage.** If your financial situation has permanently changed, temporary measures probably won't do you much good. In this case, try to negotiate to restructure the mortgage. Restructuring can take many forms, but generally involves extending the term of the loan so you have longer to pay (and thus make lower monthly payments), spreading delinquent payment of several years, and/or lowering the interest rate on the loan.

**Get the terms in writing.** If you're able to negotiate an arrangement with your creditors on the phone, ask them to send you the offer in writing. You may need to write them a letter asking for confirmation.

**Refinance your mortgage.** Refinancing is occasionally a good option, particularly if your mortgage carries a high interest rate and interest rates have since declined. If you can reduce your interest rate or take on a different type of mortgage you may be able to lower your payments to a manageable level. Keep in mind that refinancing can be expensive, however, as you may need to pay closing costs, points, and other fees.

Be very wary about refinancing, because there are a lot of lenders who prey on people threatened with foreclosure. You may end up with higher rates or fees that you can't pay, and you'll end up facing foreclosure again, with even less money this time.

**Sell off assets.** If you can't work out a suitable arrangement through these other methods, it may be time to sell off any assets you have, including your car if you don't absolutely need it. Try to find any way you can to slash your spending and raise more money. If your financial troubles are long-lasting, however, raising money in this manner may not help you in the long run.

**Sell your home.** It's a good idea to contact a real estate agent early on in the process to at least find out how much you can get for your home and how quickly. You're not obligated to sell, but if you decide that selling is the best option, you'll have a head start. While selling your home may not be an attractive option, it's better than having a foreclosure on your record, and if you have substantial equity in the home you may be able to come out of the deal with some money. Perhaps you just have more home than you can afford and after selling you can then buy a home that is within your budget.

If the amount for which you can sell your house isn't enough to cover the balance of your loan, the lender may agree to accept a reduced amount in a "short payoff" or "pre-foreclosure sale." You may also be able to receive some of the money to help with your moving costs or to pay off other lien-holders. A buyer may be able to assume your loan (take over your payments) in order to buy your house. This can help you sell your house very quickly, and it may be an option even if your mortgage contract says it is non-assumable. Contact a housing counselor, real estate agent, or attorney to see if this situation might work for you.

**Consider bankruptcy.** Bankruptcy is murder on your credit, and it should not be taken lightly. Bankruptcy is also a very complicated and expensive process, and you may not be able to keep your home even if you declare bankruptcy. Still, depending on your situation, bankruptcy may be your only option to keep your home, and if you're in dire financial straits you should consult a reputable bankruptcy attorney to discuss your options.

**Give the lender the home.** If no other remedy is available, consider offering the lender a "deed in lieu of foreclosure." You essentially just sign the home over to the lender. While you do lose your home, this is not as damaging to your credit as a foreclosure. Remember, you're making the process easier for the lender, so you should get some concessions, such as forgiving any excess you might owe if the home sells for less than the loan balance.

Also try to make sure that you will be able to stay in the home long enough to find new housing. This should be a last resort, and you may want to contact an attorney to determine how your a potential agreement will affect your rights and your finances.

**TIPS:** Depending on your state or county of residence and your lender, the lender usually initiates foreclosure proceedings after 2-4 missed payments. The whole process can take just a couple months or up to a year. In any case, you've got to stay on the ball, and you can't afford to waste time.

When considering any sort of forbearance or loan restructuring, realistically consider if you will be able to follow through with your end of the agreement. If you still won't be able to afford to make the payments, the agreement won't do you any good.

**DO NOT MOVE OUT OF YOUR HOME WHEN FORECLOSURE PROCEEDINGS BEGIN** or you may lose the ability to claim certain benefits (e.g. a one-time FHA mortgage insurance payment) or legal remedies. If your mortgage is secured by or funded by government programs such as HUD, FHA, or the Veterans Administration, you may have other options to save your home. Inquire with the relevant agency for suggestions.

You're more likely to be able to get a forbearance if you can show that your financial difficulties are temporary or that you're expecting a large sum (e.g. a tax refund) that will enable you to bring your account current soon. Lenders will generally be willing to make more drastic concessions if the likely sale value of your home is less than the outstanding balance of the loan, since this means they'll have even more trouble recouping their investment. If you are in a position to file bankruptcy, lenders may also be more willing to negotiate with you to avoid that.

How likely is it that you'll be able to save your home? Examine your situation. If the problems that have led to your late payments—illness, job loss, or a death in the family--have been alleviated, you probably have a good chance. If your financial troubles are more permanent, however, you probably won't be able to keep your home in the long run, even if you can fend off foreclosure temporarily.

While a credit counseling agency may be able to negotiate an agreement with your lender, keep in mind that you may be able to negotiate the same agreement, without having to pay the agency's fees. Always try to talk with your lender on your own, and if you can't reach a workable solution, seek outside help.

**As with any credit problem, always run towards your creditors, not away.** Hiding makes it look like you don't intend to pay, and they'll use every tool at their disposal. Be open and honest, and they'll likely work with you.

## **WARNING: This article is a general guide only and is not intended to replace professional legal or financial advice.**

If you choose to sell items from your household, such as kitchen cabinets and appliances, be sure not to sell items attached to the physical property. You don't want the lender who sought a foreclosure judgement against you to come after you for damages you may have caused.

There are, unfortunately, plenty of people and companies who try to take advantage of homeowners desperate to avoid foreclosure, and there are a wide variety of foreclosure-avoidance scams, so be very careful, especially if you're contacted by a company. Some of these scammers scan foreclosure lists looking for victims, and they may offer quick fixes such as "refinancing" schemes that actually trick you into signing your house over to the scammer.

**Always check out a company thoroughly before entrusting them with your money,** and beware of high fees, high interest rates, and *too-good-to-be-true* offers. Make sure you thoroughly understand any contract before you sign it. Remember that the threatened foreclosure is only a symptom -- unless you solve the underlying problem, you'll soon be facing this or some other symptom, again.

If you bought too much house, (much more than 30% of your post-tax income for the mortgage(s), utilities, taxes and upkeep), strongly consider that you may need to sell this house, then rent for a while or buy a more affordable residence. If your spending is out of control in other areas, you should get some help establishing and creating a workable spending plan. Then find someone willing to be tough with you to make sure you stick to it. Time is of the essence! This process takes time, so begin immediately. You don't want to get caught short of time when your home is at stake.

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