

## HOW TO AVOID FORECLOSURE

(Taken from HUD publication HUD-PA-426-H)

### **Q: What Happens when I miss my mortgage payments?**

Foreclosure may occur. This is the legal means that your lender can use to repossess (take over) your home. When this happens, you must move out of your house. If your property is worth less than the total amount you owe on your mortgage loan, a deficiency judgment could be pursued. If that happens, you not only lose your home, you also would owe HUD an additional amount.

### **Q: What should I do?**

1. DO NOT IGNORE THE LETTERS FROM YOUR LENDER. If you are having problems making your payments, call or write to your lender's Loss Mitigation Department without delay. Explain your situation. Be prepared to provide them with financial information, such as your monthly income and expenses. Without this information, they may not be able to help.
2. Stay in your home for now. You may not qualify for assistance if you abandon your property.
3. Contact a HUD approved housing counseling agency. (Keuka Housing Council is an approved agency – **315-536-8708 ext. 3**. Housing Counseling Agencies are valuable resources. They frequently have information on services and programs offered by Government agencies as well as private and community organizations that could help you. The housing counseling agency may also offer credit counseling. These services are free of charge.

### **Q: What are my Alternatives?**

You may be considered for the following:

**Special Forbearance.** Your lender may be able to arrange a repayment plan based on your financial situation and may even provide for a temporary reduction or suspension of your payments. You may qualify for this if you have recently experienced a reduction in income or an increase in living expenses. You must furnish information to your lender to show that you would be able to meet the requirements of the new payment plan.

**Mortgage Modification:** You may be able to refinance the debt and/or extend the term of your mortgage loan. This may help you catch up by reducing the monthly payments to a more affordable level. You may qualify if you have recovered from a financial problem and can afford the new payment amount.

**Partial Claim:** Your lender may be able to work with you to obtain a one-time payment from the FHA Insurance fund to bring your mortgage current. You may qualify if:

1. Your loan is at least 4 months delinquent but no more than 12 months delinquent.
2. You are able to begin making full mortgage payments.

When your lender files a Partial Claim, the U.S. Department of Housing and Urban Development (HUD) will pay your lender the amount necessary to bring your mortgage current. You must execute a Promissory Note, and a Lien will be placed on your property until the Promissory Note is paid in full.

The Promissory Note is interest free and is due when you pay off the first mortgage or sell the property.

**Pre-foreclosure sale:** This will allow you to avoid foreclosure by selling your property for an amount less than the amount necessary to pay off your mortgage loan.

You may qualify if:

1. the loan is at least 2 months delinquent.
2. you are able to sell your house within 3 – 5 months; and
3. a new appraisal (that your lender will obtain) shows that the value of your home meets HUD program guidelines.

**Deed in lieu of foreclosure:** As a last resort, you may be able to voluntarily “give back” your property to the lender. This won’t save your house, but it is not as damaging to your credit rating as a foreclosure.

You can qualify if:

1. you are in default and don’t qualify for any of the other options;
2. your attempts at selling the house before foreclosure were unsuccessful; and
3. you don’t have another FHA mortgage in default.

### **Q: How do I know if I qualify for any of these Alternatives?**

Your lender will determine if you qualify for any of the alternatives. A housing counseling agency can also help you determine which, if any, of these options may meet your needs and also assist you in interacting with your lender.

### **Q: Should I be Aware of Anything Else?**

Yes. Beware of scams!! Solutions that sound too simple or too good to be true usually are. If you’re selling your home without professional guidance, beware of buyers who try to rush you through the process. Unfortunately, there are people who may try to take advantage of your financial difficulty. Be especially alert to the following:

**Equity skimming:** In this type of a scam, a “buyer” approaches you, offering to get you out of financial trouble by promising to pay off your mortgage or give you a sum of money when the property is sold. The “buyer” may suggest that you move out quickly and deed the property to

him or her. The “buyer” then collects rent for a time, does not make any mortgage payments, and allows the lender to foreclose. Remember, signing over your deed to someone else does not necessarily relieve you of your obligation on your loan. **Call Keuka Housing Council, Inc. at 315-536-8707 ext. 3 before you pay or sign anything.**

**Q: Are there any Precautions I can Take?**

Here are several precautions that should help you avoid being “taken” by a scam artist:

1. Don’t sign any papers you don’t fully understand.
2. Make sure you get ALL “promises” in writing.
3. Beware of any contract of sale or loan assumption where you are not formally released from liability for your mortgage debt.
4. Check with a lawyer or your mortgage company before entering into any deal involving your home.
5. If you’re selling the house yourself to avoid foreclosure, check to see if there are any complaints against the prospective buyer. You can contact your state’s Attorney General, the State Real Estate Commission or the local District Attorney’s Consumer Fraud Unit for this type of information.

**Q: What are the Main Points I Should Remember?**

1. Don’t lose your home and damage your credit history.
2. Call or write your mortgage lender immediately and be honest about your financial situation.
3. Stay in your home to make sure you qualify for assistance.
4. Arrange an appointment with a HUD approved housing counseling counselor – Keuka Housing Council **315-536-8707 ext. 3.**
5. Cooperate with the counselor or lender trying to help you.
6. Explore every alternative to keep your home.
7. Beware of scams.
8. Do not sign anything you don’t understand. And remember that signing over the deed to someone else does not necessarily relieve you of your loan obligation.

Act now. Delaying can’t help. If you do nothing, **YOUR WILL LOSE YOUR HOME** and your good credit.