



11 Tips for Avoiding Foreclosure

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March 2008

You're scared. You purchased a home a few years ago or refinanced to meet expenses, and you're afraid you won't be able to keep up with the payments. You may be one of the millions of at-risk Americans with a subprime adjustable-rate mortgage (ARM) whose interest rates will reset to much higher percentages later this year, or you may be a prime borrower who took out a different type of nontraditional mortgage. You may even be up-to-date on your conventional mortgage but worried about company layoffs and mounting expenses.

Read on: The odds for avoiding foreclosure are improving. There are new tools for refinancing, the government is promising solutions, and some lenders have voluntarily agreed to freeze interest rates on certain mortgages. *This Old House* interviewed housing-crisis counselors and credit specialists all over the country and came up with 11 top tips to help you keep your home in your own hands.

1. Do your homework. Housing advocates say the reason many homeowners end up in unaffordable loans is that they either did not understand the terms of their loans or were duped by predatory lenders. "A good portion of the people we see are folks who received loans they never should have gotten in the first place," says Phyllis Salowe-Kaye of [Citizen Action](#), the largest mortgage-crisis counseling agency in New Jersey. If you were uninformed when you got your mortgage, make sure that you don't repeat the mistake now. For basic advice about refinancing, consult the [U.S. Department of Housing and Urban Development](#). Many states have also posted advice for distressed homeowners on their attorney general, banking department, or housing finance agency websites.

2. Call your lender while your head is still above water. If your credit has already tanked, you will lose negotiating power. Also, new programs to head off foreclosure target people who don't yet have a credit problem. Under the recently announced Project Lifeline, for example, six major lenders—Bank of America, Citigroup, Countrywide

Financial, JP Morgan Chase, Washington Mutual, and Wells Fargo—have agreed to suspend the foreclosure process for 30 days for qualified borrowers with decent credit ratings who are seeking to keep their homes.

3. Open all mail from the bank. Some subprime lenders, like Washington Mutual, are calling or writing ARM customers six or more months before a reset to offer assistance.

4. Expect the rescue to take time. "Too many people are trying to resolve the problem with quick take-away advice," says Salowe-Kaye. "You cannot get this resolved with one phone call." Helplines are jammed, it can take an eternity to reach the person servicing your loan, and it's impossible to know how many homeowners will actually hang on to their homes. Still, "lenders are definitely more willing to work out plans," reports William Sanchez of [Tampa Bay Community Development Corporation](#) in Clearwater, Florida. You just have to be prepared to be dogged in pursuing assistance from experts and options from your lender.

5. Locate a free or low-cost housing counselor. Go to the [U.S. Department of Housing and Urban Development](#) website to find HUD-certified counselors. The nonprofit Foundation for Credit Counseling also has an online [Homeowner Crisis Resource Center](#) that can connect you directly to a member counseling agency. The site features a quiz you can take anonymously to assess your risk. And [NeighborWorks America](#), a national nonprofit created by Congress, supports a well-publicized national hotline, 888-995-HOPE; it promises to connect you to a live counselor.

6. Get a qualified expert to help you navigate. You may want to take action on several fronts by contacting a lawyer as well. Don't go to places that advertise a fix on TV, the Internet, or telephone poles. And hang up on phony buyers who offer to cure your problem by buying your home and leasing it back to you until you can repurchase it. To find a lawyer you trust, contact an agency affiliated with [Legal Services Corp.](#) (if your income level is low enough to qualify for their assistance), or call your county or state bar association.

7. Check to see if you're eligible for special assistance. If you have an adjustable-rate mortgage and a good credit rating, the federal [FHASecure](#) program may be able to provide a refinance option with a fixed rate. If you're an active armed services member or have served within the past 90 days, the Servicemembers Civil Relief Act offers foreclosure protection.

8. Don't consider bankruptcy an easy way out. Under current laws, bankruptcy can slow or halt foreclosure in some cases, but you need to seek legal advice from a trusted source before you proceed. Bankruptcy judges are not permitted to restructure debt owed on a mortgage covering a primary residence. "Borrowers can file Chapter 13 bankruptcy, which will put a temporary hold on a foreclosure action. The problem is that in order to sustain the Chapter 13 plan, a borrower in a high-cost mortgage has to be able to make payments in the mortgage going forward, and also to pay off a percentage of the arrears and other debts each month," says Josh Zinner of the [Neighborhood Economic](#)

[Development Advocacy Project](#) in New York. Congress has proposed a new law allowing bankruptcy judges to reduce mortgage debt for borrowers holding subprime or non-traditional mortgages. But the Foreclosure Prevention Act of 2008 faces stiff opposition from mortgage bankers and the White House. And some relief programs, such as Project Lifeline, are not available to borrowers who've entered bankruptcy.

9. Meanwhile, try to keep your payments current. Mindy Wright, a housing counselor in Elyria, Ohio, says people often make the mistake of paying off credit cards bills before making their monthly mortgage payment. Why? Credit card companies call them immediately when they miss a payment, and often use threatening tactics. Banks wait much longer to communicate, and use the mail. By the time borrowers get a letter from the bank notifying them they are late with payments, they "already owe fees on tops of fees," Wright says. "Typically, when you're behind on your mortgage payments, you don't hear from your lender til you are 60, even 90 days late. With credit cards, as soon as you miss a payment, they will call and harass you day and night. That intimates people into making a payment." Wright advises homeowners to put off the credit card companies and pay their mortgage payment first. "If you don't pay the credit card bill, it might ruin your credit score, but a foreclosure will impact your credit score far more negatively—plus you won't have a place to live," she says.

10. Tighten your belt. Getting rid of luxuries like cable TV will give you credibility when you sit down to renegotiate. To bring money to the table, be willing to cash in assets such as jewelry or a car. "Servicers want to see you make sacrifices. Show some effort," says Michael van Zalinge, director of home ownership services for [Neighborhood Housing Services of Chicago](#). And be sure to draw up a detailed accounting of your expenses and assemble pay stubs, benefit statements, and tax returns. You will need these records when you talk to the bank.

11. Get familiar with various mortgage workouts. The best solution would be to refinance into a long-term mortgage with a sensible rate, but—given increasingly tough requirements around borrower credit ratings—you may not qualify for this option. You also may not be able to afford the fees. Moreover, a report just out from a group of state regulators says the refinance option has "nearly evaporated."

- A repayment plan is easier to get and will give you short-term breathing room. In this scenario, the lender tacks a portion of the amount past due onto successive monthly payments, possibly after demanding some of the past due amount up front. However, many consumer advocates advise against repayment plans for homeowners with subprime ARMs. "They're not a solution and may only forestall the inevitable," says Zinner.

- A loan modification is better: The lender lowers the interest rate and/or lengthens the amortization schedule. The [Center for Responsible Lending](#) considers true restructuring the best solution. A housing counselor or attorney can help you explore this option.

- Your last resort is to give up your house. If you owe more than it's worth, the lender may permit you to sell it while forgiving the remaining debt. This way, your lender avoids foreclosure costs, and you avoid damaging your credit. You can also bail by surrendering your deed to the bank before your lender actually files for foreclosure. If your lender accepts your offer of a "deed in lieu of foreclosure," as this option is known, you voluntarily transfer title, move out of the house—and on with your life. You avoid the notoriety of a foreclosure, which involves publication of the action in a local newspaper, a sheriff's sale of your home, and eviction. Your credit rating will still take a hit, but you will dodge the foreclosure bullet.

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