



## How to Prevent Foreclosure on Your Home<sup>1</sup>

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If you are laid off, have large medical bills or some other misfortune, it could be hard to make your mortgage payment on time. You may worry about losing your home and the money you have already put into it. Do not wait! Take action to save your home from foreclosure and keep your good credit rating.

### The First Step

Get your facts together and tell your mortgage lender about your problem. Lenders do not want to take your home and often lose money on a foreclosure.

If your lender is located out of town, check your loan papers for a toll-free telephone number. If they do not have a toll-free number, see if they will accept a collect call from you (their borrower). Be ready to discuss your problem in detail.

### Make a Good Impression

Before calling or visiting your lender, think about questions the lender may ask you. Make notes to help answer them. Be prepared and sincere. Here are possible questions you will need to answer:

1. What has caused you to fall behind in your payments?

Explain the situation that led to your problem (such as a lay-off notice, a medical expense, large utility bills, etc.). Tell the truth.

2. What are your current resources?

Write down your current monthly income. Include all dependable sources of monthly salary or wages, such as:

- disability benefits
- public assistance
- VA benefits
- Social Security benefits
- savings accounts
- your spouse's or children's income
- insurance policies (or other policies) against which you may temporarily borrow money

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- other dependable income

### 3. What are your other debts and expenses?

List your other expenses for essentials. It is better to give up a second car, boat or credit cards than to lose your home. Be realistic.

This list should include:

- monthly food cost
- average monthly utility bills
- monthly loan payments
- monthly credit card payments
- annual insurance premiums (home, auto, medical, etc.)
- alimony or child support payments
- unpaid past and future medical expenses
- all other current obligations

### 4. What are your plans?

Think of how you can manage this crisis and have a plan to solve the problem. Your attitude, outlook and plan will influence how far the lender will go to help you. Do Not Give Up Hope!

There may be ways to get financial assistance. If not, then it is still possible to reduce your losses and prevent foreclosure proceedings -- even if you need to give up your home. Foreclosure can ruin your credit rating for years.

## Your Lender Can Help

Here Are Some Possibilities:

1. A new affordable re-payment plan might be worked out.
2. If your lender has ties with a local debt-counseling organization, you may be able to receive consultations. A debt counselor analyzes your budget and arranges re-payment plans with your creditors.

3. In some cases, the lender may temporarily reduce/suspend your regular monthly mortgage payments. Or, the past due amount could be reduced by increasing your payments over a longer time span (forbearance).

4. Under certain conditions, your lender may agree to re-work (recast) your mortgage -- past due payments are added to the unpaid principal balance. Your interest rate will not increase, but the time it takes to pay off the loan may be longer.

5. Under certain conditions, if your home mortgage was insured by FHA, it might be assigned to the US Department of Housing and Urban Development (HUD). HUD would then become your lender and help you to work out a re-payment plan.

6. If you cannot make regular monthly mortgage payments within a reasonable period, your lender may advise you to: (1) protect your investment by selling your home, or (2) reduce your loss by signing your property over to the lender. Consider these two options only as a last resort. Either one can help avoid foreclosure and protect your credit rating.

## More Sources of Help

1. Other sources of help may also be available. Many communities also have agencies that can help.
2. The County Cooperative Extension Service Family and Consumer Sciences agent provides educational assistance in household financial and family crisis management.
3. Local government or United Way agencies sponsor organizations that give credit counseling.

4. Your credit union, labor union, and religious or social service agencies may offer sources of help and counseling.
5. If your mortgage is an FHA (HUD) or VA guaranteed loan, contact the appropriate local government office. HUD offices may have a list of HUD-approved home-ownership counseling agencies which may be helpful. The Florida HUD office (for FHA loans) is located in Jacksonville.

## Glossary

**Delinquent Payment** -- A mortgage payment that is not paid on the day it is due.

**Late Charge** -- A fee, charged by your lender to help pay for the added work of collecting late payments. Repeated late payments are a violation of your contract with the lender.

**Default** -- A mortgage is in default when two or more payments are overdue. Mortgage contracts generally allow for foreclosure to start when a default exists, though most lenders will not act that quickly.

**Forbearance** -- An oral or written agreement to repay the delinquency over a period of time so that the loan can be brought current.

**Foreclosure** -- The legal process a lender must use to acquire a borrower's property after the borrower has failed to meet the mortgage contract obligations.

## Reference

U.S. Department of Housing and Urban Development, "Having Problems Paying Your Mortgage?" HUD 426(3).