

# How to Avoid Foreclosure and Protect Home Equity

As interest rates rise, home price appreciation slows, and adjustable rate mortgages reset, many homeowners find themselves in a position they never imagined themselves in – on the brink of foreclosure. Foreclosures on loans have increased by more than 50 percent since 2000. If you are in danger of losing your home, consider the following action steps and contact your local NeighborWorks® organization or other HUD-certified housing organization for help in fighting foreclosure.

## What should I do if I miss a mortgage payment?

**Call for help.** More than half of homeowners facing foreclosure do not call for help when they fall behind in their mortgage payments.

- ▶ **Call 1-888-995-HOPE.** HOPE for Homeowners is a toll-free national hotline that offers free foreclosure prevention and counseling advice from a third-party, HUD-certified, not-for-profit network of counseling agencies dedicated to helping homeowners avoid foreclosure. The hotline is facilitated by the Homeownership Preservation Foundation, in partnership with NeighborWorks® America.
- ▶ **Contact a reputable HUD-certified nonprofit housing organization** or credit counseling agency. These organizations offer a range of services including face-to-face financial counseling. **More than 100 local NeighborWorks organizations are HUD-certified.** To find a HUD-certified NeighborWorks® organization near

you, visit [www.nw.org/network/nwdata/hudhousing.asp](http://www.nw.org/network/nwdata/hudhousing.asp)

**Notify your lender as soon as you know your payment will be late.** Homeowners who are one or two payments behind are more likely to keep their homes than those further behind on their payments.

**Work it out.** Lenders make money by collecting your principal and interest payments, not by foreclosing on homes. If you present your circumstances along with a reasonable plan that will offer you temporary relief, they may be able to offer you a number of payment options if you qualify for them.

## What are my options if I cannot make payments?

- ▶ **Forbearance:** You are allowed to delay payments for a short period, with the understanding that another option will be used afterwards to bring the account current.
- ▶ **Reinstatement:** When you are behind in your payments but can promise a lump sum to bring payments current by a specific date.
- ▶ **Repayment Plan:** If your account is past due, but you can now make payments, the lender may agree to let you catch up by adding a portion of the past due amount to each current monthly payment until your account is current.
- ▶ **Modify Your Mortgage:** The lender can modify your mortgage to extend the length of your loan (or take other steps to



reduce your payments). One solution is to add the past due amount into your existing loan, financing it over a long term.

- **Sell Your Home:** If catching up on payments is not possible, the lender might agree to put foreclosure on hold to give you some time to attempt to sell your home.
- **Property Give-Back:** The lender can allow you to give back your property – and then forgive the debt. However, give-backs have a negative impact on your credit record, although not as much as a foreclosure. The lender might require that you attempt to sell the house for a specific time period before agreeing to this option, and it might not be possible if there are other liens against the home.

### How can I protect my home equity?

Solutions that sound 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. Be alert to the following:

- **Avoid foreclosure rescue scams.** In this type of scam, a “buyer” approaches you, offers 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.

- **Phony counseling agencies.** Some groups that call themselves “counseling agencies” may approach you and offer to perform certain services for a fee. You can perform many of the services they offer for free, from negotiating a new payment plan with your lender to pursuing a pre-foreclosure sale. If you have any doubt about paying for such services, call your local NeighborWorks® organization. Call before you pay anyone or sign anything.

### How can I reduce the risk of foreclosure when I purchase my home?

Solutions that sound 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. Be alert to the following:

- **Take advantage of pre-purchase counseling offered by local NeighborWorks organizations.** Homeowners can avoid trouble later on by making informed decisions before purchasing their homes. Borrowers who are most likely to keep their homes understand their mortgage options and how much they can really afford. Education also helps borrowers identify and avoid unscrupulous sellers or mortgage lenders. Homeowners who have received high quality homeownership education and counseling are more than 30 percent less likely to default on their mortgage.

Free pre-purchase counseling is offered through local governments as well as non-profit organizations that are part of the NeighborWorks® network.





- ▶ **Avoid prepayment penalties and balloon payments.** Homeowners who refinance their mortgages with loans containing prepayment penalties or balloon payments are more likely to foreclose, according to a University of North Carolina study. The study also found that prepayment increases foreclosure risk by about 20 percent, and mortgages with balloon payments were 46 percent more likely to go to foreclosure than loans without. Protect the equity in your home – it's a valuable source of wealth that will build over time.
- ▶ **Stay on top of home repairs and maintenance.** NeighborWorks® organizations provide counseling in home maintenance and repairs and rehabs that improve the value of a home. Too often emergency repairs and less-than-trustworthy contractors push a homeowner into foreclosure.

