

Foreclosure Solutions

The current U.S. housing market and national financial crisis has caused untold stress and heartache for many American families. Foreclosure is one of the most devastating financial challenges that a family can face and one that many times can be avoided. The options available to Sacramento-area residents for foreclosure are many. Following is a brief explanation of these solutions, including their benefits and drawbacks:

Reinstatement

A reinstatement is the simplest solution for a foreclosure, however it is often the most difficult. The homeowner simply requests the total amount owed to the mortgage company to date and pays it. This solution does not require the lender's approval and will 'reinstate' a mortgage up to the day before the final foreclosure sale.

- Benefit: Does not require the mortgage company or lender's approval.
- Drawback: Requires that a homeowner be able to pay all back payments, fines and fees.

Forbearance or Repayment Plan

A forbearance or repayment plan involves the homeowner negotiating with the mortgage company to allow them to repay back payments over a period of time. The homeowner typically makes their current mortgage payment in addition to a portion of the back payments they owe.

- Benefit: Allows the homeowner to make back payments over time.
- Drawback: Requires that a homeowner be in a financial position to pay not only their current mortgage, but also a portion of the back payments owed. Some mortgage companies will require a homeowner to 'qualify' for forbearance.

Mortgage Modification

A mortgage modification involves the reduction of one of the following: the interest rate on the loan, the principal balance of the loan, the term of the loan, or any combination of these. These typically result in a lower payment to the homeowner and a more affordable mortgage.

- Benefit: Reduces the payment a homeowner is required to make on a monthly basis and may reduce the principal balance of the loan
- Drawback: Requires that a homeowner 'qualify' for the new payment and will often require full documentation. Lender has to be actively pursuing modifications.

Rent the Property

A homeowner who has a mortgage payment low enough that market rent will allow it to be paid, is able to convert their property to a rental and use the rental income to pay the mortgage.

- Benefit: Allows homeowner to keep property indefinitely.

- **Drawback:** The issues that can arise with a rental property are many, and rent often does not cover the full cost of property ownership and maintenance.

Deed in Lieu of Foreclosure

Also known as a 'friendly foreclosure', a deed in lieu allows the homeowner to return the property to the lender rather than go through the foreclosure process. Lender approval is required for this option, and the homeowner must also vacate the property.

- **Benefit:** Many times in a successful deed in lieu, the lender will forego their right to a deficiency judgment.
- **Drawback:** Requires that a homeowner vacate the property, and a deed in lieu may be reported to credit bureaus as a foreclosure.

Bankruptcy

Many have considered and marketed bankruptcy as a 'foreclosure solution,' but this is only true in some states and situations. If the homeowner has non-mortgage debts that cause a shortfall of paying their mortgage payments and a personal bankruptcy will eliminate these debts, this may be a viable solution.

- **Benefit:** Does not require lender approval.
- **Drawback:** If a homeowner cannot afford their mortgage payment, a bankruptcy will only stall—not stop—the foreclosure process. Bankruptcy can be costly, is damaging to credit scores, and can only be declared once every seven years.

Refinance

If a homeowner has sufficient equity in their property and their credit is still in good standing, they may be able to refinance their mortgage.

- **Benefit:** In some cases, this will lower payments.
- **Drawback:** In today's market, a refinance will almost always raise mortgage payments, and is an expensive process.

Service members Civil Relief Act (military personnel only)

If a member of the military is experiencing financial distress due to deployment and that person can show that their debt was entered into prior to deployment; they may qualify for relief under the Service members Civil Relief Act. The American Bar Association has a network of attorneys that will work with service members in relation to qualifying for this relief.

- **Benefit:** If qualified, this will lower payments on all consumer debt in addition to mortgage payments.
- **Drawback:** Must be active military to qualify.

Sell the Property

Homeowners with sufficient equity can list their property with a qualified agent that understands the foreclosure process in their area.

- Benefit: Allows homeowner to avoid foreclosure and harvest some of their equity.
- Drawback: In many cases today, homeowners do not have sufficient equity to sell their property without negotiating a short sale (see next solution).

Short Sale

If a homeowner owes more on their property than it is currently worth, then they can hire a qualified real estate agent to market and sell their property through the negotiation of a short sale with their lender. This typically requires the property to be on the market and the homeowner must have a financial hardship to qualify. Hardship can be simply defined as a material change in the financial stability of the homeowner between the date of the home purchase and the date of the short sale negotiation. Acceptable hardships include but are not limited to: mortgage payment increase, job loss, divorce, excessive debt, forced or unplanned relocation, and more.

- Benefit: A short sale allows the homeowner to avoid foreclosure and salvage some of their credit rating. This also keeps foreclosure off the individual's public record, and in many cases will allow the homeowner to avoid a deficiency judgment. Borrower may qualify for another mortgage in as little as 24 months (as opposed to five years for a foreclosure).
- Drawback: Short sales can be a trying process in which a homeowner is best served by contracting with a qualified real estate agent to guide the way

