

Avoiding Foreclosures

Are you behind in your mortgage payments, or concerned that you soon might be?

Have you received a pre-foreclosure letter from your lender?

First of all, don't be ashamed. Millions of homeowners are in your situation – many times through no fault of their own. A job loss, a serious illness or other circumstances can put you in danger of foreclosure.

The economic downturn has led to many homeowners being “underwater” in their loans, meaning they owe more than their home is worth, making it impossible to refinance.

If you've become one of those millions, don't panic. Foreclosure, and its accompanying effect on your credit, is not inevitable. There are many options out there, and your circumstances may make one of those options feasible and desirable for you.

To keep your options alive, you need to communicate with your lender. Many homeowners have lost their homes to foreclosure without ever contacting their lender.

This would also be a good time to consult with a tax advisor and a RE/MAX Executive agent. Thousands of RE/MAX agents are specifically trained to work with distressed properties, and will be able to help you explore foreclosure options.

Many lenders would rather not foreclose. They take a large financial hit on a foreclosure. So in many cases, they'll consider viable alternatives. Some of these alternatives may keep you in your home.

Loan Modification

While only certain homeowners will be able to take advantage of this alternative, it may be your best option because it keeps you in your home and typically results in the least damage to your credit.

Your lender may be willing to modify the terms of the loan, whether it's reducing the principal, lowering the interest rate or other creative strategies to make the loan affordable for you. As part of the stimulus package, the U.S. government has programs to provide incentives for banks that use this strategy as an alternative to foreclosure.

Short Sales

This is the fastest-growing foreclosure alternative. Many lenders will allow a Short Sale, when the home sells for less than the amount of the loan. This is attractive for lenders because they lose less money than in a foreclosure. Also, Short Sales generally take less time than foreclosures, so the banks don't have to carry the properties on their books as liabilities.

And it's attractive for homeowners because the impact on their credit is far less than in a foreclosure. You may be able to buy another home in as little as two to three years after a Short Sale, compared with a typical seven-year wait after a foreclosure.

Short Sales are paperwork-intensive, and there are many, many details involved. If you're considering this option, it's critical to work with a trained real estate agent who knows all the steps required to successfully complete a Short Sale.

RE/MAX leads the real estate industry in agents who've completed the Certified Distressed Property Expert (CDPE) course or other specialized training. They understand the intricacies of these transactions, and they'll be able to advise and counsel you every step of the way.

Find a qualified RE/MAX Executive agent in your area. Search for Certified Distressed Property Expert, Short Sales & Foreclosure Resource or Five Star Professional.

The U.S. Treasury has announced guidelines for streamlining and simplifying the Short Sale Process.

Keep in mind that no matter which option you choose, there may be tax and other financial consequences. You should consult with a tax advisor or legal expert.

Foreclosure (Cash for Keys)

One of the biggest problems in foreclosures is that homeowners sometimes physically damage the property, or even sell some of the fixtures, before leaving. Needless to say, this is not a good idea. It may expose the homeowners to financial and legal liability. It also makes the properties much more difficult to sell.

To prevent this, some lenders offer a program called “Cash for Keys.” The homeowners receive a check for vacating the property within a certain time period and leaving it in good condition. If you have no alternative other than foreclosure, you should ask the bank about this option.

Tips From HUD

The U.S. Department of Housing and Urban Development has 10 tips for avoiding foreclosure:

1. Don't ignore the problem.
2. Contact your lender as soon as you realize you have a problem.
3. Open and respond to all mail from your lender.
4. Know your mortgage rights.
5. Understand foreclosure prevention options.
6. Contact a HUD-approved housing counselor.
7. Prioritize your spending.
8. Use your assets.
9. Avoid foreclosure prevention companies.
10. Don't lose your house to foreclosure recovery scams.