

## David Bach The Automatic Millionaire



### Six Steps to Avoiding Foreclosure

by *David Bach*

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If you're a homeowner and are having trouble paying your [mortgage](#), this article could save your house and your family's finances.

As I write this, several million Americans are in jeopardy of losing their greatest investment to [foreclosure](#) within the next 18 months. But help is available, and there are ways to work with your lender to help keep your home.

Unfortunately, too many people don't know this. In fact, according to [a survey](#) conducted by lender [Freddie Mac](#) and market research firm Roper Public Affairs and Media, nearly two-thirds of delinquent borrowers are unaware that their lender even offers repayment options.

#### Pressure on Lenders, Help for Borrowers

Banks really don't want your house, and there's enormous financial pressure on lenders that foreclose. According to [a recent New York Times article](#), it actually costs a bank an average of \$40,000 to foreclose on a loan.

Equally important to lenders is the political pressure currently being placed on them to "work out this problem." The [Federal Reserve](#), Congress, the Senate, and presidential candidates are all paying attention to the issue of record foreclosures, many of which are a result of adjustable rate mortgages (ARMs) and subprime lending.

In addition, agencies like [Fannie Mae](#), [Freddie Mac](#), and the [Federal Housing Administration](#) have begun putting pressure on lenders to offer more options to borrowers in trouble. As a result, there will be more help than ever for borrowers to work out a way to stay in their homes.

#### The Six Steps

With that in mind, here are six things you need to know if you or someone you know is having a problem making their mortgage payment:

##### 1. Call your lender immediately.

The single biggest mistake borrowers make when they fall behind on their [mortgage](#) is not contacting their lender. As soon as you realize you have a problem, you've got to make that call.

"The sooner the lender is approached, the better," says Tim McGarry, spokesman for [Washington Mutual](#). "Even after one receives a default notice, one should contact the lender and open up discussions." The [foreclosure](#) process for most lenders has a set



schedule (see point 6 below), so the longer you wait the fewer options you'll have.

## **2. Ask to speak to the "loss mitigation" department.**

See if your monthly statement contains the phone number to the lender's loss mitigation department. If not, call the customer service number and ask for that department.

At most lenders, the loss mitigation department helps borrowers determine which workout option they qualify for. Keep in mind, though, that some lenders have their collections departments advise borrowers on workout options, so don't be alarmed if you're sent straight to collections.

## **3. Be prepared to review your situation in detail with your lender.**

Your lender will ask a series of questions to assess your financial situation. Some lenders, like [Wells Fargo Home Mortgage](#), have specialists with both the training and technology to pre-qualify a caller for a workout option right over the phone.

If you have the right financial documents in front of you when you make the call, you might be able to get a resolution within minutes. So organize your bills, statements, and anything else that will help give an accurate picture of your current financial status.

[Patrick Carey](#), senior vice president of Default and Retention Operations at Wells Fargo Home Mortgage, advises borrowers to be completely honest and upfront about their personal financial situation. "You've got to be candid," Carey says. "If you make your situation out to be better than it actually is, you'll get a workout agreement that isn't going to help you, leaving you worse off than where you started from."

On the other hand, he goes on, "If you make your situation out to be more dire than it is, your lender might determine that there's no way for you to afford your payments and may only offer liquidation options."

## **4. Know the ways your lender can help you avoid foreclosure.**

Depending on how serious your situation is, your lender can either offer you retention options (ways to keep your house) or liquidation options (ways to give up your house without going into [foreclosure](#)). Specifics for each vary from lender to lender, but here's a general list of what to expect:

Retention options: A 2004 [Freddie Mac](#) study showed that retention options could lower the probability of foreclosure by 80 percent among all borrowers and by 68 percent among subprime borrowers. Retention options include:

- Forbearance: Generally lets you pay less than the full amount of your mortgage payment for a temporary period.
- Repayment plan: A form of forbearance where you pay the outstanding amount in installments divided over a period of time.
- Reinstatement: You pay your lender the total outstanding amount in one [lump sum](#) by a specific date.
- Loan modification: Your [interest rate](#) and/or term of loan is altered -- that is, the mortgage note itself is changed.

Liquidation options: If you simply can't afford to stay in your home and haven't been able to sell it, you may qualify for one of the following liquidation options:

- Short sale: When you get an offer that's less than the amount you owe, your lender could consider it as a settlement.
- Deed in lieu of foreclosure: This allows you to transfer your property voluntarily to your lender.
- Assumption: Permits a qualified buyer to take over your mortgage debt and pay the mortgage payments.

If you have an FHA loan, you may have additional options available to you. For example, HUD provides interest-free loans to repay past-due interest and [escrow](#) amounts. It's important to check with your lender for details.

### **5. Know where to turn if you aren't getting the help you need from your lender.**

There are other places to go for help if you find that your lender isn't being helpful. It's important not to give up, and to take further action. [The Homeownership Preservation Foundation](#) is a HUD-certified, nonprofit organization that offers advice and resources to help homeowners with financial challenges. Reach out to them by calling 1-888-995-HOPE.

### **6. Be aware of the [foreclosure process](#) -- and consequences.**

If you're not making monthly payments and haven't discussed workout options with your lender, eventually the foreclosure countdown gets under way.

In general, there are four stages:

1. [Redemption](#): The lender's attorney contacts you and gives a deadline -- known as a cure date -- by which all missed loan payments must be paid back in full in order to avoid foreclosure.
2. [Default](#): If the cure date comes and goes without you doing anything about it, the lender posts a notice of default.
3. [Foreclosure](#): If you don't cure the delinquent payments after the default notice has been posted, the lender exercises his rights under the trust deed he holds and forecloses on the [mortgage](#), taking possession of your house. If you're still living there, the lender will get a court order to have you evicted.
4. [Sale](#): The lender sells the foreclosed home at public auction. This can take place within 30 to 120 days depending on state law.

You should avoid foreclosure at all costs. Not only will it ruin your [credit rating](#), but losing your home to foreclosure is one of the scariest experiences a family can go through.

### **Take Control of Your Future**

If you have a subprime or [ARM](#), pull out your loan documents today. Figure out whether you're going to have a problem meeting the monthly payments in the future. If so, call your lender right away to find out about [refinancing](#) options.

The bank will usually contact you 45 days before your mortgage resets, but by then it's too late to take any real action. Instead, take control. Contact your lender 120 to 180 days in advance to get working on your options.

Remember, your home is probably your best investment and largest [asset](#). Do all you can to protect it -- and yourself.

## **149 COMMENTS**

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**Yahoo! Finance User** - Monday, April 30, 2007, 6:59PM ET

Overall:

good job

**Evelyn A** - Friday, April 20, 2007, 7:11PM ET

Overall:

Excellent advice for the single, working class and for those who are not rich.

**samuel\_uwledning** - Tuesday, April 17, 2007, 9:57PM ET

Overall:

Want to save your home? Make an effort to call a broker that can help... 818 943 1150 ask for Sam.

**swaaahaaa** - Sunday, April 15, 2007, 2:15PM ET

Overall:

Bach is sponsored by lenders - he uses his columns to mix in promotions with some common sense advice. he fails to mention for many selling the house the best option.

**Yahoo! Finance User** - Sunday, April 15, 2007, 11:19AM ET

Overall:

Excellent source of information. Although, if the homeowners are facing foreclosure because they used creative financing to buy a house they honestly didn't qualify for, then refinancing will only push further the inevitable. And they better not use taxpayer money to bailout irresponsible people.

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