

Alternatives to Foreclosure and foreclosure scams to avoid

With the current housing crisis affecting more and more homeowners, many borrowers having trouble making payments are surprised to learn that foreclosure is not the only option.

The Federal Trade Commission (<http://www.ftc.gov/bcp/menus/consumer/credit/mortgage.shtm>) outlines the following alternatives to foreclosure, depending on a homeowner's financial situation and existing type of loan:

Reinstatement:

The borrower pays the lender the entire past-due amount, plus late fees and penalties, by an agreed-upon date.

Works best for: Solvent borrowers whose payment problems are temporary.

Repayment Plan:

The lender gives the borrower a fixed amount of time to repay past-due payments by adding a portion of them to the regular payment.

Works best for: Solvent borrowers who have missed a small number of payments.

Forbearance:

Mortgage payments are reduced or suspended for an agreed-upon period of time. At the end of that time, the borrower resumes regular payments plus a lump sum or additional partial payments for a number of months to bring the loan current.

Works best for: Solvent borrowers who are facing a temporary income reduction (for

example, are on disability but will resume full time work shortly).

Loan Modification:

The borrower and lender agree to permanently change one or more terms of the mortgage contract to make payments more manageable. Modifications may include reducing the interest rate, extending the term of the loan, or adding missed payments into the loan amount.

Some lenders may forgive or cancel a portion of the debt. Under the Mortgage Forgiveness Debt Relief Act of 2007, the forgiven debt may be excluded from income when calculating federal taxes owed, but it still must be reported on the federal tax return.

Works best for: Solvent or insolvent borrowers who are facing long-term income reduction or increased ARM payments.

Sale:

The homeowner sells the property and pays the lender the full amount due on the note. Some lenders may postpone foreclosure proceedings if there is a pending sales contract or if a borrower lets them know they are putting the home on the market.

Works best for: Solvent borrowers whose homes are worth as much as loan balance plus any expenses related to selling the home (real estate agent fees, for example).

Short Sale:

The lender allows the property securing a mortgage or deed of trust to be sold for less than the existing loan balance. A short sale is really a form of pre-foreclosure and occurs when the lien holder agrees to accept less than the loan amount to avoid the foreclosure process.

Works best for: Insolvent borrowers and those whose homes are worth less than the amount of the mortgage.

Deed-in-Lieu:

With the lender's agreement, the homeowner voluntarily transfers property title to the lender in exchange for cancellation of the remainder of debt. Although the homeowner loses his home and his equity, a deed-in-lieu is less damaging to the borrower's credit than a foreclosure.

Works best for: Borrowers whose loan amount is equal to or greater than what the home would sell for.

Bankruptcy:

Personal bankruptcy is generally considered a last resort because the consequences are far-reaching and long-lasting. A bankruptcy stays on a credit report for 10 years, making it difficult to get credit, buy another home, purchase life insurance, or even get a job. Still, for some, this legal procedure offers a fresh start to someone who cannot repay their debts. If a homeowner has regular income, a Chapter 13 bankruptcy may allow them to keep their property.

Works best for: Insolvent borrowers who cannot pay their debts.

FHA and VA alternatives

Homeowners with an FHA or VA mortgages may have other foreclosure alternatives. Contact FHA (www.fha.gov) or VA (www.homeloans.va.gov) to learn more.

Be aware of scams

The Federal Trade Commission also advises homeowners to be aware of the following scams:

- The foreclosure prevention specialist: A phone counselor charges high fees to make phone calls or complete paperwork that the homeowner could easily do for himself. Some of these companies use the words HOPE or HOPE NOW in their names in order to confuse borrowers who are looking for assistance from the free 888-995-HOPE hotline. (Buyers interested in this program can learn more at <http://www.coloradoforeclosurehotline.org>. The Colorado hotline is 1-877-601-HOPE.)
- The lease/buy back: Homeowners are deceived into signing over the deed to their home to a scam artist who tells them they can remain in the house as a renter and eventually buy it back. Usually, the terms make the buy-back impossible, the homeowner gets evicted, and the purchaser walks away with the equity.
- The bait-and-switch: Homeowners think they are signing documents to bring their loan current. Instead, they discover too late — usually when they receive an eviction notice — that they have signed over the deed to their home.

More information

Homeowners facing the possibility of foreclosure should be proactive in contacting their lender, accountant, and/or attorney to discuss their situation.

More information on Short Sales and Foreclosures is available on Land Title's website, www.LTGC.com, under the "Topic of the Month" link in the left-hand column.

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