

Alternatives to Foreclosure

When homeowners are facing foreclosure, it is important they look at their situation without attaching emotions. When the situation is looked at from a "strictly business" point of view, it is easier for homeowners to analyze their alternatives and choose the option that best suits their needs and desires.

Time is of the essence: Distressed homeowners need to carefully consider all of their options and take quick action in order to allow themselves enough time to complete their chosen process. There are generally nine options to foreclosure. Each option has pros and cons and not all options are available to all homeowners. The nine options are:

1. **Do Nothing:** If a homeowner does nothing, they most likely will lose their home at a foreclosure auction/trustee sale. Your credit will be severely impacted, and can take 3-7 years to repair before being able to get a consumer loan. Credit reporting agencies report foreclosures as deficient judgments, in addition to late/missed payments.
2. **Payoff/Refinance:** Completely paying off the entire loan amount plus any default amount and fees. Usually, this is accomplished through a refinance of the debt. New debt could be at a higher interest rate than your existing note(s), and there may be a prepayment penalty if there has been a recent default. With this option, you will want to make sure there is equity in the home. Generally, lenders want at least an 80/20 loan to value ratio in order to do a conventional refinance.
3. **Reinstatement:** Bringing the loan current by completely paying the entire default amount plus interest, attorney fees, late fees, taxes, missed payments and fees. Reinstatement might also require paying off subordinate judgments or liens, such as delinquent property taxes.
4. **Loan Modification:** Utilizing the existing mortgage company to restructure the debt, lower the interest rate, or extend the terms of the loan. This may allow the homeowner to stay in their home at a more affordable payment. To qualify, you must prove to the lender you have fixed the problems that caused any late payments. You will also need to re-qualify for the mortgage. This option rarely results in a reduction in the principle balance of your mortgage.
5. **Forbearance:** Lender may be able to arrange a repayment plan based on the homeowners financial situation. The lender may even be able to provide a temporary payment reduction or suspension of payments. Information will be required by the lender that shows you are able to meet the new payment plan requirements.
6. **Partial Claims:** A loan from the lender for a 2nd loan to include back payments, costs and fees.
7. **Deed in Lieu of Foreclosure:** Give the property back to the bank instead of the bank foreclosing. Banks generally require the home to be well maintained, all mortgage payments and taxes must be current. Most loan applications ask if this has ever happened as it is typically viewed and reported as foreclosure.
8. **Bankruptcy:** This option can liquidate debt and/or allow more time. We can refer you to a qualified bankruptcy attorney.
 - **Chapter 7** (Liquidation) To completely settle personal debt
 - **Chapter 13** (Wage Earner Plan) Payments are made toward a plan to pay off debts in 3-5 years.
 - **Chapter 11** (Business Reorganization) A business debt solution
9. **Regular Sale or Short Sale:** If the property has equity (money left over after all loans and monetary encumbrances are paid). The homeowner may sell the home without lender approval through a conventional home sale. In this case, the homeowner will get cash from the sale. On the other hand, a Short Sale (also known as a pre-foreclosure sale) can be negotiated with your lender by the Real Estate Professional if what is owed is MORE than the properties value.