10 Alternatives to Foreclosure

Know Your Options

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Need more information about Avoiding Foreclosure?
Contact me today for a confidential, no-obligation consultation to discuss your individual circumstances and go over your options:

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Alternatives to Foreclosure

The current U.S. housing market and national financial crisis has caused untold stress and heartache for many American families. Nevada, and in particular Clark County, has been one of the hardest hit areas of the country. Foreclosure is one of the most devastating financial challenges that a family can face and one that many times can be avoided. Before you decide to "Just Walk Away," here are some alternatives that you might not have considered that could reduce the negative impact to your credit score, and allow you to get back in the housing market sooner.

Options to keep the home

1. Repayment Plan

Your servicer gives you a fixed amount of time to repay the amount you are behind by adding a portion of what is past due to your regular payment. This option may be appropriate if you've missed a small number of payments. This works best for solvent borrowers who have missed a small number of payments.

2. Refinance

Refinancing requires income, credit and equity to support a new mortgage or deed of trust. This option may allow you to use any equity that you have established in your home to pay the delinquent amount. Depending on the interest rate of your new loan, your monthly payments might be reduced. You can explore refinancing with your existing Lender as well as with any Lender of your choice.

3. Short-Refi

This is the latest trend for lenders in working with delinquent borrowers to avoid foreclosure. The lender agrees to refinance the home with a reduction in the principal balance. Sometimes the lender will also reduce the interest rate as well on the new loan. The borrower needs to provide proof of a "hardship" and fully document the ability to pay the new mortgage.

4. Forbearance

Your mortgage payments are reduced or suspended for a period you and your servicer agree to. At the end of that time, you resume making your regular payments as well as a lump sum payment or additional partial payments for a number of months to bring the loan current. Forbearance may be an option if your income is reduced temporarily (for example, you are on disability leave from a job, and you expect to go back to your full time position shortly). Forbearance isn't going to help you if you're in a home you can't afford.

5. Loan Modification

You and your loan servicer agree to permanently change one or more of the terms of the mortgage contract to make your payments more manageable for you. Modifications may include reducing the interest rate, extending the term of the loan, or adding missed payments to the loan balance. A modification also may involve reducing the amount of money you owe on your primary residence by forgiving, or cancelling, a portion of the mortgage debt. Under the Mortgage Forgiveness Debt Relief Act of 2007, the forgiven debt may be excluded from income when calculating the federal taxes you owe, but it still must be reported on your federal tax return. For more information, see www.irs.gov. A loan modification may be necessary if you are facing a long-term reduction in your income or increased payments on an ARM. Before you ask for forbearance or a loan modification, be prepared to show that you are making a good-faith effort to pay your mortgage. For example, if you can show that you've reduced other expenses, your loan servicer may be more likely to negotiate with you.

6. 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. 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.

Options to leave the home

7. Selling Your Home

If there is sufficient equity in the property and depending on the real estate market in your area, selling your home may provide the funds you need to pay off your current mortgage debt in full.

8. 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(s). 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.

9. Deed in Lieu of Foreclosure

If you cannot sell your home in a reasonable amount of time, your mortgage company may allow you to voluntarily transfer the deed to the property to the mortgage company. In most cases however, the homeowner must attempt to sell the home for its fair market value first (at least 90 days before a lender will consider

this option). This option might not be available if there are other liens on the home, such as judgments, second mortgages or tax liens.

10. Bankruptcy

A bankruptcy may allow the homeowner to discharge some debt and reorganize others to keep the property. Personal bankruptcy generally is considered the debt management option of last resort because the results are long-lasting and far-reaching. A bankruptcy stays on your credit report for 10 years, and can make it difficult to get credit, buy another home, get life insurance, or sometimes, get a job. Still, it is a legal procedure that can offer a fresh start for people who can't satisfy their debts. We recommend discussing bankruptcy options with a qualified attorney.

Be Alert to Scams

Scam artists follow the headlines, and know there are homeowners falling behind in their mortgage payments or at risk for foreclosure. Their pitches may sound like a way for you to get out from under, but their intentions are as far from honorable as they can be. They mean to take your money. Among the predatory scams that have been reported are:

- **The foreclosure prevention specialist:** The "specialist" really is a phony counselor who charges high fees in exchange for making a few phone calls or completing some paperwork that a homeowner could easily do for himself. None of the actions results in saving the home. This scam gives homeowners a false sense of hope, delays them from seeking qualified help, and exposes their personal financial information to a fraudster.

  Some of these companies even use names with the word HOPE or HOPE NOW in them to confuse borrowers who are looking for assistance from the free 888-995-HOPE hotline.
- **The lease/buy back:** Homeowners are deceived into signing over the deed to their home to a scam artist who tells them they will be able to remain in the house as a renter and eventually buy it back. Usually, the terms of this scheme are so demanding that the buy-back becomes impossible, the homeowner gets evicted, and the "rescuer" walks off with most or all of the equity.
- **The bait-and-switch:** Homeowners think they are signing documents to bring the mortgage current. Instead, they are signing over the deed to their home. Homeowners usually don't know they've been scammed until they get an eviction notice.
  Source: http://www.ftc.gov/bcp/edu/pubs/consumer/homes/reo04.shtm

Short Sales – A Brief Explanation

A short sale can be an excellent solution for homeowners who need to sell, and who owe more on their homes than they are worth. In the past, it was rare for a bank or lender to accept a short sale. Today, however, due to overwhelming market and economic changes, banks and lenders have become much more negotiable when it comes to these transactions. Recent changes in corporate policy and the Obama administration have also improved the chances of getting a short sale approved.

Short sale defined…
A homeowner is 'short' when the amount owed on his/her property is higher than current market value. A short sale occurs when a negotiation is entered into with the homeowner's Lender (loan servicing company (or companies) to accept less than the full balance of the loan at closing. A buyer closes on the property, and the property is then 'sold short' of the total value of the mortgage.

For homeowners to qualify for a short sale, they must fall into any or all of the following circumstances:

- Financial Hardship – There is a situation causing you to have trouble affording your mortgage.
- Monthly Income Shortfall – In other words: "Your monthly income is not enough to cover your total monthly expenses." A lender will want to see that you cannot afford, or soon will not be able to afford your mortgage.
- Insolvency – The lender will want to see that you *do not* have significant liquid assets that would allow you to pay down your mortgage.

If you have questions or feel you may qualify for a short sale, please contact us for a confidential, no obligation consultation.

The Short Sale Process

The following steps are an overview of the short sale process and what you can expect during the transaction.

1. **We calculate the value of your property.** We will accomplish this by preparing a Comparative Market Analysis and looking at the competition in your area and the condition of those homes. We will need to price and position your home so that it sells quickly and at a high enough price so the lender will agree to the terms.

2. **Calculate your home's financial position.** In this step, we will examine the value from step 1 and compare this to the mortgages and other debt that is supported by the home value. If your home value is significantly less than your debt tied to the property you are a candidate for a short sale.

3. **Preparation of your Short Sale Application**. The lender(s) will require a specific package of information and documentation from you. This is a critical step in the process; your short sale package must be complete and accurate. We will counsel you on what is required and send you a packet to get the process started after we agree to work together. We will also contact the lender on our behalf, to ensure we have the correct forms and applications.
Generally, the lender will require the following items from you:

- Lender short sale application
- Hardship letter – clearly outlining their financial hardship and substantiating the reasons for requesting the short sale
- Seller's financial statement / budget – delineating all income and expenses
- Last 2 years tax returns
- Last 2 bank statements
- Last 2 paycheck stubs

4. **Listing and Marketing Your Property.** We will start searching for a buyer, especially those that have expressed interest in buying short sale properties. We will implement our effective marketing plan, leveraging all of our resources and tools – including multiple websites, local advertising. Not every buyer will want your property given the status and tenuous nature of a short sale. The buyer must be willing to deal with extended deadlines and additional demands made by your lender. Your lender is the key to a successful short sale transaction and we will need them to feel confident in the new buyer. Once we have an executed purchase agreement, our work begins in earnest to negotiate with the lender(s), on your behalf for short sale approval.

5. **We'll need to contact your lender and explain your situation**. Lenders are under no obligation to accept a short sale and the terms will be examined closely by the lender. The lender is the ultimate decision maker and must give final approval for short selling your home. Lenders may disapprove of any aspect of the transaction without reason or justification. Lenders do not have to be reasonable. We will use our negotiation skills to obtain the best outcome for you and do our best to get the short sale approved as quickly as possible.

6. **There may be tax repercussions** in enacting a short sale transaction. Part of the process we will cover is the tax liability that may remain after the short sale transaction is complete. As with any tax related matter we will advise you to seek counsel from a tax professional or tax attorney.

Summary

As Certified Short-Sale Professionals, we can handle the challenge of short selling your property and prevent you from succumbing to the many pitfalls that can beset those who are not familiar with the process.

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If you meet these qualifications, contact your servicer. You will need to provide documentation that may include:

- information about the monthly gross (before tax) income of your household, including recent pay stubs.
- your most recent income tax return.
- information about your savings and other assets.
- your monthly mortgage statement.
- information about any second mortgage or home equity line of credit on your home.
- account balances and minimum monthly payments due on your credit cards.
- account balances and monthly payments on your other debts, like student loans or car loans.
- a completed Hardship Affidavit

How do I apply for a loan modification?

The first call you make should be to your lender, have the information above ready to discuss with them and call your customer service line to ask them what options you have available. If the person you speak with does not understand what you are asking, you can ask to be referred to one of the following departments (different lenders have different names for these departments):

- Loss Mitigation
- Mortgage Modification
- H.O.P.E.

Prior to contacting your mortgage lender you can quickly complete an eligibility test at www.MakingHomeAffordable.gov

page: http://www.makinghomeaffordable.gov/contact_servicer.html

For a list of mortgage lenders and servicers, visit www.hopenow.org

This test will let you know if you are eligible for a modification through the government-sponsored Home Affordable Modification Program (HAMP). For a list of lenders and servicers who are participating in HAMP, visit the Contact Your Mortgage Servicer

What if I don't qualify for a loan modification, can't afford my home, and owe more than it's worth?

You are not alone and foreclosure is not the only option. If your mortgage lender or servicer will not work with you to reduce your payment, **you may want to consider a short sale**. Also, you may want to consider opting into the Nevada Foreclosure Mediation Program as it may help with negotiating a short sale. We are Certified Short-Sale Professionals and have undergone extensive training in how to process and negotiate short sales. Contact us for a confidential consultation to discuss your options and learn more about the short sale process including mediation.

Foreclosure Process & Timeline

The Foreclosure Process in the state of Nevada typically takes about 6 months from the time the Notice of Default is filed to the Eviction of the homeowner.
Notice of Default starts the foreclosure process – it is prepared, recorded, mailed, posted, published and a copy sent to all parties (owner, all lenders, IRS, local, state, and federal tax agencies) who have an interest in the property.

Reinstatement Period (month 1) – starts on the first day the notice of default is recorded. This is a 35 day period in which the homeowner can reinstate the loan by making any back payments, foreclosure fees and other allowable expenses.

Redemption Period (months 2-3) – starts on day 36 from the recorded date of the Notice of Default. Now the homeowner is now responsible for paying the remaining loan balance along with all foreclosure fees and other allowable expenses. It should also be noted that approximately 10 days before the end of the redemption period, the trustee will notify the lender for permission to prepare the Notice of Trustee Sale for publication.

Publication Period (month 4) - means the Notice of Sale must be published once a week for three consecutive weeks (21 days) prior to the Trustee Sale.
Trustee Sale (month 5) is the final step in the foreclosure process and it is extremely important to remember the homeowner has no right of redemption after the sale is finalized. If there is a successful bidder at the sale, the new owner will purchase the property in "as is" condition with no warranties. If there are no bidders at the sale, the lender becomes the sole owner as an REO (Real Estate Owned).

Eviction (month 6) process starts after the Trustee Sale is finalized. The eviction process is initiated by posting a 3 day Notice to Quit on the property. If there is no respond, the new owner will file for eviction proceedings with the court.
Upon receiving an eviction court order, the sheriff will evict all occupants.
Exception for this timeline is when the occupant is a renter. In this case, the new law requires 90 days notice to the renter before the new owner can file for eviction.

Useful National Resources

Making Home Affordable Find out if you are eligible for a Loan Modification or Refinance http://www.makinghomeaffordable.gov

RentalForeclosure.com Anyone can find out if a property is in Foreclosure – Notice of Default (NOD) filed http://www.rentalforeclosure.com

Freddie Mac – Working with Your Lender to Avoid Foreclosure
http://www.freddiemac.com/avoidforeclosure/stop_foreclosure.html

Hope Now – an alliance between counselors, mortgage companies, investors, and other mortgage market participants. This alliance will maximize outreach efforts to homeowners in distress to help them stay in their homes and will create a unified, coordinated plan to reach and help as many homeowners as possible.
http://www.hopenow.com

Housing Help Now- National Foundation for Credit Counseling
http://www.housinghelpnow.org

HUD.gov - Avoiding Foreclosure information & resource webpage
http://portal.hud.gov/portal/page/portal/HUD/topics/avoiding_foreclosure

Home Foreclosure and Debt Cancellation – (IRS.gov)
http://www.irs.gov/newsroom/article/0,,id=174034,00.html

The Mortgage Forgiveness Debt Relief Act of 2007 (IRS.gov)
http://www.irs.gov/individuals/article/0,,id=179414,00.html