

Dos and Don'ts of Foreclosure

Facing a foreclosure is a scary thing, but there are things you should do – and shouldn't do – to avoid making the situation worse.

- **DO answer the phone and read your mail.**
Avoiding your lender won't make the problem go away. In fact, it will only make the problem worse. Your lender may be able to help you, so be sure to answer the phone and read any mail they may have sent you.
- **DO realistically assess your situation.**
Are your financial problems temporary? If you are temporarily out of work and will be fine once you find a new job, call your lender. Lenders may be able to offer a forbearance or repayment plan.
- **DO consider your options.**
If you are not in a position to keep your home, consider selling it before you face a foreclosure. If you have already missed a mortgage payment, call your lender. There may be purchase options, like a short payoff or assumption (see sidebar) that help avoid foreclosure.
- **DO be aware of certain financial responsibilities.**
Even if your lender sells your property, you may still be responsible for the difference in the sale price and what you owe. It is also important to realize that you may be responsible for certain taxes when a lender forecloses on your property. However, the IRS does provide tax relief in certain situations.
- **DO protect your wealth.**
Recognize that you may have significant equity in your property that must be preserved.
- **DON'T move out of your home.**
In order to qualify for assistance, homeowners are often required to be living in their home. Be sure to talk to your lender before you think about moving.
- **DON'T ignore the problem.**
It may be possible to keep your home, but if you wait to take action, fewer options will be available. You have certain rights and can take certain actions to help you keep your home; however, you only have a limited amount of time to assert those rights or take those actions.

Talk to a lawyer or legal aid organization, since your rights vary from state to state. Most states and large cities have legal aid organizations; to find one near you, go to the Legal Services Corporation, a government-sponsored organization that provides high-quality civil legal assistance to low-income Americans.

- **DON'T convince yourself you can afford a home if you can't.**
Most lenders will only lend what a borrower can afford, but some less scrupulous lenders will allow borrowers to get in over their heads. In some cases, a home that was affordable becomes unaffordable due to changes in your life circumstances. If your mortgage is truly beyond your means, consider selling your home and purchasing a less expensive home or renting for a period of time before the only option left is foreclosure. Call your mortgage company; they may be able to help you avoid foreclosure by agreeing to an assumption or a short payoff.
- **DON'T fall victim to a scheme.**
Some people want to profit by your misfortune by offering to contact and conduct all work-outs

and negotiations with your lender on your behalf – for a fee. View a helpful video Freddie Mac posted YouTube titled "Foreclosure Scams 101."

Recognizing predatory lenders

Unfortunately, when dealing with foreclosure not all mortgage lenders or credit repair companies have your best interest in mind. Beware of predatory lending traps, such as:

- **High-Risk Second Mortgages.**
These may seem like a good option, but be cautious – they could further complicate the problem.
- **Unsolicited "Loan Approvals."**
Predatory lenders often send homeowners information stating that they are pre-approved for a loan. Although a loan can look very attractive if you are desperate to avoid foreclosure, talk to your lender, not a stranger. If refinancing is your best option, your lender will let you know.
- **Refinancing to Access Equity.**
By stripping your home of equity, you may actually be going further into debt – decreasing your chances of keeping your home. Again, talk to your lender or a reputable housing counselor before making any decisions.
- **Equity Skimming.**
A buyer may offer to pay off your mortgage or sell your property if you sign over the deed and leave your house. Don't do it. Your lender may be able to help you, but usually only if you still live in your home.
- **Phony Counseling.**
Reputable counseling is readily available – often free of charge. Be sure you are talking to a reputable agency or the counseling could hurt instead of help you.
- **Don't Sign What You Don't Understand.**
Some predatory lenders can be aggressive in trying to get you to sign paperwork. If you are unsure, don't sign. Take the paperwork with you and go over it with a trusted advisor. If the paperwork is legitimate, the lender should have no problem if you want to review it.

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