

# ALTERNATIVES TO FORECLOSURE

**FROM YOUR REALTOR® . . .**

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Facing the prospect of foreclosure can be overwhelming, but less so if you know your other options. Homeowners with distressed loans often ignore their alternatives to foreclosure until it's too late. Don't make that mistake. Consider your other options right away. The more time you have before you ultimately lose your home through foreclosure, the more viable your other options may be. Things may seem bleak, but now is not the time to falter. Knowledge and determination will give you the resolve you need to overcome the financial challenges you face.

**WHAT IS FORECLOSURE?** Foreclosure is the legal process for a mortgage lender to sell property to satisfy a defaulting borrower's debt secured by that property. Foreclosure can take quite a toll on homeowners, both emotionally and financially. Depending on your circumstances, foreclosure may force you and your family out of your home, damage your credit, increase your tax liability, and expose you to other personal liability.

## **Consider These Alternatives to Foreclosure:**

- 1. Loan Workout:** If you experience difficulty paying your mortgage, you should immediately contact your lender or a housing counselor to try to work something out. If you just need a little time to get back on your feet, your lender may agree to a loan workout plan to temporarily reduce or suspend your payments, allow you to repay what's past due in monthly installments, or provide some other type of relief.
- 2. Loan Modification:** Even if your financial difficulties are severe and long term, you should contact your lender or a housing counselor to try to work something out. Your lender may agree to a loan modification to permanently change one or more of your loan terms. A loan modification may involve a reduction of your interest rate, an extension of your loan term to 40 years, a reduction in your loan balance, or other changes to the terms of your loan to make your mortgage payments more affordable. Your lender may participate in the government-subsidized Home Affordable Modification (HAMP) program which gives monetary incentives to both lenders and borrowers for modifying certain distressed loans. For more information about the Making Home Affordable program, go to <http://makinghomeaffordable.gov/>.

**CONTACT A HOUSING COUNSELOR:** For assistance with foreclosure avoidance, you may contact a qualified housing counselor. A housing counselor may discuss your situation with you as well as interface with your lender on your behalf. A list of housing counseling agencies approved by the U.S. Department of Housing and Urban Development (HUD) is available at <http://www.hud.gov/offices/hsg/sfh/hcc/fo/>.

- 3. Short Sale:** Another way to handle a distressed loan is to sell your property. Selling, however, may be challenging if you're "upside down" which means your unpaid balance is more than your sales price. Even so, your lender may voluntarily agree to a short sale by accepting a loan payoff of less than what's owed. As with foreclosure, a short sale may affect your credit, tax liability, personal liability, and pose other consequences. If, however, your property is one-to-four residential units, your lenders are generally prohibited from holding you personally liable for any deficiency under California law. With a short sale you can avoid what some people perceive as a stigma of foreclosure. Doing a short sale also allows you to take a proactive approach to dealing with your distressed loan, rather than go through what can be an agonizing wait for the foreclosure process to run its course. For more information, contact your REALTOR® to get a better idea of your property's current market value and to find out about listing and selling your property. Your REALTOR® may also assist you for a short sale under the Home Affordable Foreclosures Alternative (HAFA) program which gives monetary and other incentives to both lenders and borrowers for doing a short sale.

(Please see page two)

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### **Alternatives to Foreclosure (Cont'd):**

**4. Refinance:** If you cannot do a loan workout or loan modification with your existing lender, you may still be able to refinance your loan with your lender or another lender. Although low FICO scores, low appraisals, and the lack of income are common obstacles to refinancing distressed loans, whether you qualify for a refinance depends on your individual circumstances. You may also be eligible for federal assistance through the Home Affordable Refinance program for up to 125% of the property's value if you currently have a Fannie Mae or Freddie Mac loan, but other terms apply.

**5. Deed-in-Lieu of Foreclosure:** A deed-in-lieu of foreclosure is a voluntary agreement between a borrower and lender for the borrower to give title to a property to the lender in full satisfaction of the loan secured by that property. Your lender may look favorably at a deed-in-lieu of foreclosure because it will not have to spend time and money pursuing foreclosure.

**6. Bankruptcy:** Bankruptcy is a federal court proceeding for settling your debts with your creditors under a judge's supervision. If you face foreclosure, the filing of a bankruptcy case may provide an "automatic stay" to temporarily stop the foreclosure proceedings. If, however, you file for liquidation under Chapter 7 of the Bankruptcy Code, the court may, in time, lift the automatic stay to allow the mortgage lender to resume its foreclosure proceedings. Alternatively, if you file under Chapter 13, you may be able to keep your property, but you must generally repay the overdue amount in a three-to-five year plan along with your regular mortgage payments. For more information on bankruptcy, you may go to <http://www.uscourts.gov/bankruptcycourts/bankruptcybasics.html>.

**7. Other Alternatives:** There are many other alternative to foreclosure. You may be able to borrow money from friends. You may be able to supplement your income by renting out a bedroom or getting a second job. You may qualify for a business loan, personal loan, or other types of financing. If your mortgage lender fails to follow proper foreclosure procedures, you may be able to file a lawsuit seeking an injunction to stop the foreclosure process or other relief. You may also be able to come up with some other alternatives to foreclosure not mentioned here. For any of these alternatives to foreclosure, carefully consider their pros and cons, including possible credit, tax, legal, and other consequences. Also be able to come up with some other alternatives to foreclosure not mentioned here.



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