

How to Prevent Foreclosure on Your Home¹

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If your hours get cut, or if you get laid off, have large medical bills, or experience some other financial shock or misfortune, it may become hard to make your mortgage payments on time.

Unfortunately, if you are more than 120 days delinquent in your mortgage payments, this could result in foreclosure.

Foreclosure is the legal process a lender uses to acquire a borrower's property after the borrower has failed to meet the mortgage contract obligations. The lender seizes the property and sells it to pay off your mortgage. Foreclosure can ruin your credit rating for years.

If you know you will be missing a mortgage payment with no way to make it up, you should be aware that you could be on the path to foreclosure. This would result in losing your home and the money you have already put into it. Don't wait! Take action to move onto a positive path to avoid foreclosure. This also may help reduce the impact on your credit score.

The First Step

Be proactive and contact your mortgage lender. Do not force them to track you down. Get your facts together and tell your lender about your problem. Lenders do not want to take your home and often lose money on a foreclosure.

You can find contact information on your mortgage statement. Be ready to discuss your problem in detail.

Make a Good Impression

Before calling or visiting your lender, think about questions the lender may ask you. Compile notes ahead of time to help you answer them. Be prepared and sincere. A few questions you will need to answer are listed below.

1. What caused you to fall behind in your payments?

Explain the situation that led to your problem (e.g., a lay-off notice, a medical expense, large utility bills, etc.). Tell the truth and be sincere in your willingness to work out a plan to resolve the situation in the best way possible.

2. What are your current resources?

Write down your current monthly income. Include all dependable sources of monthly salary or wages, such as:

- Disability benefits
- Public assistance
- VA benefits
- Social Security benefits
- Savings accounts

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- Part-time job income
- Your spouse's or children's income
- Insurance policies (or other policies) against which you may temporarily borrow money
- Other dependable income

3. What are your other debts and expenses?

List your other expenses for essentials. Be realistic. This list should include:

- Monthly food cost
- Average monthly utility bills
- Monthly loan payments
- Minimum monthly credit card payments
- Annual insurance premiums (home, auto, medical, etc.)
- Alimony or child support payments
- Unpaid past and future medical expenses
- All other current obligations

4. What are your plans?

Think about how you can manage this crisis and come up with a plan to solve the problem. Your attitude, outlook, and plan may influence how far the lender will go to help you. Don't give up hope!

There may be ways to get financial assistance. If not, then it is still possible to reduce your losses and prevent foreclosure proceedings—even if you need to give up your home.

Your lender may be able to help

Your lender may work with you in several ways. A few possibilities are listed below.

A new, more affordable repayment plan, known as a loan modification, might be worked out in discussion with the lender.

Your lender can refer you to a credit or housing counseling organization. A counselor will analyze your budget and work with you to develop a plan to bring your mortgage current, if possible.

Under certain conditions, your lender may agree to rework (recast) your mortgage, meaning that past-due payments will be added to the unpaid principal balance. Your interest rate will not increase, but the time it takes to pay off the

loan may be longer, and the overall amount paid in interest over the life of the loan will be greater.

In some cases, the lender may allow a forbearance. This is an oral or written agreement to repay the past-due amount over a specified period so the loan can be brought up to date.

If your home mortgage is insured by the Federal Housing Administration (FHA), the lender must refer you to a housing counseling agency that has been approved by the U.S. Department of Housing and Urban Development (HUD). You will work with a counselor and the lender to work out a repayment plan to bring your mortgage current or to sell your house.

If your income or expenses have changed so much that you are unable to continue paying your mortgage, even under a workout plan offered by your lender, you may consider these options as a last resort:

Short sale: With your lender's permission, you sell your home for an amount less than, or "short of," the amount still owed, to avoid foreclosure.

Deed-in-lieu of foreclosure: You give the property back to the lender to sell for the amount still owed on the mortgage.

Be aware that with a foreclosure, short sale, or deed-in-lieu, you may still be responsible for the unpaid balance owed to the lender if the sale of the house does not cover the full amount owed. This is known as a **deficiency judgment**. Discuss with your lender the possibility of forgiveness if any balance or deficiency remains after a foreclosure, short sale, or deed-in-lieu.

Glossary

Familiarize yourself with the following terms before speaking with lenders.

- **Delinquent payment:** A mortgage payment that is not paid on the day it is due.
- **Late charge:** A fee charged by your lender to help pay for the added work of collecting payments that arrive after the due date. Repeated late payments are a violation of your contract with the lender.
- **Default:** A mortgage is in default when a borrower does not comply with the terms of the promissory note, such as not making the required mortgage payments.

- **Forbearance:** An oral or written agreement to repay the delinquency over a period of time so the loan can be brought up to date.

Additional Resources

In many communities, other sources of help also may be available.

- Your local UF/IFAS Extension Family and Consumer Sciences agent can provide educational assistance regarding household financial and family crisis management. To find your local UF/IFAS Extension agent, visit <https://sfyl.ifas.ufl.edu/find-your-local-office/>.
- Local government or the United Way may fund community organizations that provide housing and credit counseling.
- Your credit union, labor union, or local religious or social service agencies may offer help and counseling.
- If your mortgage is an FHA-insured (HUD), VA-guaranteed, or USDA loan, contact the appropriate local government office. To locate a HUD-approved housing counseling agency near you, go to <https://hudgov-answers.force.com/housingcounseling/s/>.
- The PowerPay program is a free resource that can be used to organize your debts and repayment schedules. It is available at <http://www.PowerPay.org>. The website includes a system where you can enter your debt information and the program will produce a calendar of payments. It helps you prioritize your debts and see the impact of debt consolidation; however, the program will NOT make the suggested schedule of payments for you. You still are responsible for making payments on time to your creditors.

If you have questions about how your credit score can be impacted by late mortgage payments or foreclosure, it is best to get the information from an authoritative source: Fair, Isaac and Company. They have information for consumers on their website (<http://www.myfico.com>), including a section on commonly asked questions about how different events can affect your credit score. This website may request a fee for their service.

You can check your credit report for free at <https://www.annualcreditreport.com/index.action>.

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