

You Can Save Your Home From Foreclosure



**This Guide Includes Everything You
Need To Save Your Home From
Foreclosure**

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DISCLAIMER

The information in this publication is meant to provide helpful information about preventing foreclosure and related topics. The publisher, the author, and any entity connected with this publication do not offer any legal, accounting or other professional advice. It is highly recommended that anyone requiring such advice seek the services of a qualified professional.

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REMAIN CALM

Understandably, homeowners often panic when faced with foreclosure. Unfortunately, that often results in inaction or capitulation. Instead, you must be resilient! You've already taken action – now follow through.

Keep in mind that foreclosure is a lengthy process, which can take a minimum of three months in states with non-judicial foreclosures and up to two years in states with judicial foreclosures. Moreover, in a judicial foreclosure you may be entitled to redeem your property for an additional period after the foreclosure sale. Knowing important dates on the horizon could be the difference between success and failure.

Whatever you do, don't give up and don't move out of your home. You still have time to develop and implement a plan to stop the foreclosure.

Some lenders will not accept anything less than the amount necessary to fully reinstate your loan. In this case your payments will be returned to you and the lender will continue with its foreclosure. If you have had payments returned to you, put them in a separate account and do not use them for any other purpose. Most likely, you will eventually pay some or all of this to the lender to cover costs of the work-out and to commence a new payment plan.

TAKE CHARGE

Often, the most effective way to stop your foreclosure is to negotiate directly with your lender to bring your payments current. You may already feel overwhelmed by your financial difficulties, so it's natural to feel intimidated by the prospect of negotiation. Don't worry - completing this package should give you a clear picture of your options.

Whatever option ultimately makes the most sense, you will be required to present the case compiled here to justify your lender's leniency and avoid foreclosure. By doing the legwork now you will gain valuable insight about your limitations and possibilities, and prepare yourself for the obstacles that lie ahead.

Only under special circumstances will your lender agree to a work-out arrangement if you do NOT have recurring monthly income. If you anticipate gaining employment in the future, then you are encouraged to complete this package using a temporary estimate of your income. If you are sure there is no hope for employment or recurring income, then your options become limited to a quick sale, short sale, a deed-in-lieu of foreclosure or bankruptcy (all discussed later). Again, other than a quick sale, you will still be required to justify your lender's leniency.

You CAN Do IT

Often a borrower is not sure how to approach his or her lender. Rest assured - you do not have to sound like an experienced lawyer to deal with your lender successfully. As long as you educate and prepare yourself, use common sense and remain persistent, you should be able to represent yourself effectively.

As explained on our website, you must remember that your lender does not want to own your property. Lenders wish to avoid the substantial costs associated with foreclosure and subsequent resale of the property; including payment arrears, taxes, insurance, legal fees, rehabilitation costs, commissions and closing costs. For the lender, helping you keep your house is a much better alternative than becoming a property owner.

Furthermore, current economic and political forces are in your favor. Due to a period of loose lending standards and the subsequent tidal wave of foreclosures, lenders are under increasing pressure to help delinquent homeowners and placate politicians. More than ever, lenders are willing to restructure delinquent loans to prevent foreclosure. Moreover, they realize that almost all borrowers are well intentioned and therefore want to make their payments

WHAT NOT TO DO

Do not demand that the foreclosure be stopped. Focus on solving your lender's problem first. It's your responsibility to convince your lender to accept a plan. Your lender may eventually agree to stop the foreclosure, but only after you are able to assure them that you are willing and able to bring your loan current and resume making payments.

Do not threaten your lender with litigation with hopes of obtaining a better settlement. Your lender is under no obligation to workout your loan. If you threaten your lender, it is highly unlikely they will work with you - they will simply foreclose. A work-out plan is an attempt to help a borrower in default, so provide every incentive for your lender to help.

Do not make promises you can't keep. The only way to keep your home on terms you can handle is to be honest and realistic. Do not accept any settlement as if it's your only choice. Accepting terms beyond your means could actually put you in a worse position than you are now. In fact, a short-sale or deed-in-lieu would be a better option. Don't accept anything you cannot manage indefinitely. Just continue to ask for a workable plan based on the facts.

COMMUNICATION

Silence is NOT golden in your situation. To establish credibility it is imperative that you stay in constant contact with your lender. If you have missed payments or will miss payments, it will be much easier to delay or stop the foreclosure if the lines of communication with your lender are wide open. Respond to every phone call and letter with an attitude of cooperation. Remember, you both have the same goal, but your lender must feel that you are committed to curing your delinquency.

It is also important to establish a paper trail so you can prove to your lender or a court that you have been cooperative. Answer any letter (or email) from your lender with another letter (or email). It is important to send copies of your letters and emails to the supervisor, branch manager or other relevant party. Given that a superior is aware of it, any cross correspondence will likely receive more attention, or will not be ignored.

To assist you with your tracking, print out the contact log below and document all correspondence. Print multiple copies if needed.

CONTACT LOG

Date of contact:	Time:
Name of contact	Phone
If meeting, location	Fax
	Email
Who initiated communication?	
What was discussed?	

Date of contact:	Time:
Name of contact	Phone
If meeting, location	Fax
	Email
Who initiated communication?	
What was discussed?	

Date of contact:	Time:
Name of contact	Phone
If meeting, location	Fax
	Email
Who initiated communication?	
What was discussed?	

CONTACTING YOUR LENDER

First, make sure you are talking to the company who owns your loan. You may be receiving statements and phone calls from a Loan Servicer who may not have a vested interest in avoiding foreclosure. If for some reason the company on your statement will not divulge whether they own the loan call the original lender. You can also determine who currently owns the loan by contact the customer service department of a title insurance company.

Second, don't waste time dealing with a collection person who has no authority to negotiate with you or stop your foreclosure. If a collection person calls, tell them you are in discussion with the work-out or loss mitigation department and politely hang up.

Contact someone who does have the authority to stop your foreclosure. Lenders have entire departments dedicated to resolving your foreclosure called by various names, like "work-out," "loss mitigation," "loan resolution," and "homeowner retention." Make sure you are contacting one of these departments. Simply be persistent but polite until you reach the right person.

If you are sure that you are contacting the loss mitigation department (as opposed to the bankruptcy department or some other loan servicing department of your lender), and your lender still will not speak to you, then something is wrong. Ask to speak to the manager of the loss mitigation department. Once you contact the appropriate person, inform him/her:

- That you have fallen behind on your payments, but you believe your situation is temporary.
- That you are committed to resolving the delinquency.
- That you will be sending a concise explanation of your hardship and a summary of your income, expenses, assets and liabilities.
- That you will include supporting documentation in the form of pay stubs, tax returns, benefit statements, P&L statements (for self-employed), etc.

Refer to the **Compile Workout Package** section.

If you still haven't reached the right person, send a letter similar to the one provided below. Tailor the letter to suit your particular situation. **Be sure to send a copy to someone in a supervisory position.** Wait a few days and call again. You will eventually reach the right person.

Date

John Smith, Loan Officer
First Bank of USA
4321 Main Street
Anytown, USA 54321

Re: 123 Elm St, Anytown, USA: Loan # 012345

Dear John:

I have missed several payments on my residence referenced above. I am experiencing financial problems that may not be resolved for several months. However, I wish to resolve this problem and bring my loan current as soon as possible.

I have attempted to contact your loss mitigation or work-out department several times without success. Please have an authorized representative contact me who can discuss my options during this temporary hardship.

Sincerely,

Home Owner

cc: Bill Jones, Branch Manager

COMPILE WORKOUT PACKAGE

You must convince your lender that the numbers behind a potential work-out are solid. The only way to do that is to provide a clear and concise presentation of your financial condition. By investing time up-front, you will be prepared to discuss specific proposals about bringing your loan current and impress upon your lender your commitment to a workable plan.

Required Document Checklist

- Financial Statement** – Follow the **Financial Statement Instructions**
- Detailed Letter of Hardship** – (Dates, reason for delinquency, what you have done to attempt to workout problem in the past, what you have done to prevent this from recurring in the future).
- Supporting Hardship Information**
(i.e. letter of termination, lay-off notice, letter from doctor, medical documentations etc.)
- Payroll Stubs and/or Proof of Income Verification Information for Last 30 days**
(If paid every month, provide at least 2 months and if self-employed please supply a profit and loss statement or Schedule C; include any benefit statements from Social Security, Disability, Unemployment, Retirement, or Public Assistance)
- Last Two Month's Bank Statements**
(Or a letter stating that you currently do not have a bank account)
- Two Years Federal Income Tax Returns and All Schedules**
(Or a letter stating that you did not file income taxes for that year)
- Any Correspondences from Lender's Attorney or Sheriff.**
- Equity Analysis** – How much equity do you have in the home?
- Work-out Plan** – Use **Financial Statement Supplement** and Instructions.

Note: At your discretion, there are several approaches to submitting a work-out plan:

- Wait until your lender suggests a work-out plan with the outside chance it will be more favorable than the one you derived.
- Submit a “dream plan” with your Work-Out Package and negotiate from there.
- Submit a plan that you can live with and stand firm.

LETTER OF HARDSHIP

Loan Number: _____

I/We, _____, are requesting that Lender, Servicer, PMI, governmental guarantor or insurer, representing lawyer, or other party related to this case review my financial situation to see if I/We qualify for any workout option.

I/We are having problems making monthly payments because of financial difficulties created by:

- | | | |
|---|---|---|
| <input type="checkbox"/> Unemployment | <input type="checkbox"/> Reduced Income | <input type="checkbox"/> Divorce |
| <input type="checkbox"/> Separation | <input type="checkbox"/> Medical Bills | <input type="checkbox"/> Too Much Debt |
| <input type="checkbox"/> Death of my Spouse | <input type="checkbox"/> Payment Increase | <input type="checkbox"/> Business Failure |
| <input type="checkbox"/> Job Relocation | <input type="checkbox"/> Illness | <input type="checkbox"/> Military Service |
| <input type="checkbox"/> Incarceration | <input type="checkbox"/> Other (Please Specify) | |
- _____

I/We believe that my/our situation is Temporary Permanent

Provide details of your situation on the attached **Hardship Letter** (i.e. When did this happen? How did this happen?). If you need additional space, use a separate sheet of paper.

Lien Holder’s Name and Address: (list all liens on the property)

I/We, _____,
state the information provided above to be true and correct to the best of
my/our knowledge.

Borrower's Signature Date Borrower's Signature Date

Hardship Letter

Please describe your hardship in detail, using the following bullets below as a guideline.

- **What was the initial reason for default?**
- **What have you done or tried to do to resolve this problem on your own?**
- **Why do you believe that your situation is better now?**

Borrower's Signature Date Borrower's Signature Date

Use extra sheets of paper if necessary

FINANCIAL STATEMENT INSTRUCTIONS

Most people spend far more money on miscellaneous expenditures than they realize. Money has a way of disappearing. It may seem obvious, but still needs to be emphasized, you will have to be extremely careful with your finances for several months in order to comply with any work-out arrangement. Maintaining a proper budget will be critical.

Included in this package is a list of ways to increase your income, which you are encouraged to consider. You may find it very helpful to implement some of the ideas immediately and report the new, supplemental income.

Net Income – The following calculation technique is used to mathematically increase your residual monthly income. Use this technique ONLY if your income and expenses are close to break-even every month and you are attempting to qualify for a work-out program. DO NOT use this technique if you are attempting to qualify for a short-sale or a deed-in-lieu of foreclosure.

1. Gross Income

Information used to complete the income portion of the financial statement must be taken directly from your paycheck stub. Do not waste time by approximating if you do not have your pay stub – the numbers should be exact.

You will determine your net monthly income, for both borrower and co-borrower, depending on how often you are paid. Without using the formulas below you could be denied extra income, which could make the difference in qualifying for a loss mitigation program.

Following are examples of calculating your MONTHLY income:

If you are paid **WEEKLY** multiply the income on your paycheck by **4.333**

4.333 is derived by dividing 52 weeks by 12 months, meaning there is an average of 4.333 weeks in every month. If you earn \$500 per week for 52 weeks you earn \$26,000 per year. Your \$26,000 per year divided by 12 months is \$2,166.67 per month, which is higher than the \$2,000 per month you would get by simply multiplying your weekly check by four weeks. The quick formula is: $4.333 \times \$500/\text{week} = \$2,166/\text{month}$

If you are paid **EVERY TWO WEEKS** multiply the income on your paycheck by **2.166**

2.166 is derived by dividing 26 weeks by 12 months. If you earn \$1,000 every two weeks (26 times) you earn \$26,000 per year. Your \$26,000 per year divided by 12 months is \$2,166.67 per month, which is higher than the \$2,000 per month you would get by simply multiplying your paycheck by two. The quick formula is: $2.166 \times \$500/\text{week} = \$2,166/\text{month}$

2. Withholdings

Once again, information used to complete the withholding portion of the financial statement must be taken directly from your paycheck stub. Do not waste time by approximating if you do not have your pay stub – the numbers should be exact.

Add all withholdings, including federal taxes, state taxes, FICA, Medicare, insurance, union dues, etc. Then perform the same mathematical operation indicated in the income portion. For example, if all your withholdings total \$75 per week and you are paid weekly the following formula would apply:

$$\diamond 4.333 \times \$75/\text{week} = \$324.98/\text{month}$$

3. Total

Using the examples above, your **net monthly income** would be \$1,949.35:

$$\diamond \$2,166.00 - \$324.98 = \$1,841.02/\text{month}$$

4. Other

Although it may be obvious, if you are paid once a month or twice a month, regardless of the number of weeks in the month, you should simply multiply your paycheck by one or two respectively.

Expenses

The expense section of your financial statement is fairly straightforward. However, you should carefully consider each expense to determine if the amount you spend is necessary, if indeed the expense is necessary at all.

For example, is dry cleaning a necessary expense? Can you delay buying clothing for several months? Can you postpone some home maintenance?

Also, be careful not to enter an annual expense in any line item. Obviously, you need only divide by 12 to derive a monthly figure; however, some people forget and wonder why there expenses seem so high.

Included in this package is a list of ways to reduce your expenses, which you are strongly encouraged to consider. You may find it very helpful to implement some of the ideas immediately and report the new, lower monthly expenses.

Residual Income

The goal of this process is to produce income in excess of your expenses. Of course this residual income should be realistic. You should be able to eventually generate enough funds to resolve your delinquency. If you do not feel you can maintain your financial projections, you will likely wind up in default again.

Subtract your monthly expenses from your net monthly income to arrive at your residual income. Divide your residual income by your monthly mortgage payment to get a percentage of your mortgage remaining each month. Using the examples above, if your monthly expenses total \$1,700.00 per month, your residual income would be \$249.35 ($\$1,949.35 - \$1,700.00 = \249.35). Assuming your mortgage is \$900.00 per month, the percentage of your mortgage you have remaining each month is $\$249.35 \div \$900.00 = \mathbf{27.7\%}$.

1. If you have a **negative** residual income you should pursue some of the suggestions included for increasing income and cutting expenses. If you still feel you cannot maintain a positive residual income you are nevertheless encouraged to submit your Work-Out Package to your lender (after reviewing The Work-Out Plan section). There are programs that can still prevent your foreclosure and current market conditions are compelling many lenders to be more accommodating than ever. Do not give up yet!
2. If you have a **slightly positive** (less than 25%) residual income you can qualify for some loss mitigation programs. You should still consider pursuing the suggestions included for increasing income and cutting expenses to ensure a successful resolution. Submit your Work-Out Package to your lender (after reviewing The Work-Out Plan section);

however, bear in mind that long-term success will depend on consistent residual income.

3. If you have a **positive** (more than 25%) residual income you can qualify for most loss mitigation programs. Submit your Work-Out Package (after reviewing The Work-Out Plan section) to your lender and begin a dialogue.

THE WORK-OUT PLAN

Whether or not your lender seems particularly willing to consider a workout agreement, formulating a plan of your own can help force the issue. It will demonstrate initiative and possibly plant the seed of a favorable plan in the mind of your lender. At the very least, you will also be well-served to strategize about various methods of repaying your arrears and resuming your regular monthly payments.

Please refer to the **Appendix A: Work-Out Programs** section in this package. You should become familiar with the options at your disposal and how they may relate to your specific situation. You will ultimately employ one or a combination of **refinancing** a **loan modification**, a **repayment plan** or a **forbearance agreement**. A **partial claim** can be difficult to obtain, but with foreclosures on the rise it never hurts to ask. Possible scenarios follow:

1. A loan that is \$4,000 in arrears is repaid over twelve months by paying an additional \$333.33 a month. Assuming monthly payments are normally \$1,000 a month; a very common workout agreement would allow payments of \$1,333.33 a month for one year. Regular payments resume thereafter.
2. The same \$4,000 in arrears is covered by paying an extra \$200 a month for twenty months. However, if extra payments can only be made in the future, an alternative would be to repay in months three through twenty-two.
3. The same \$4,000 in arrears can be paid in a lump-sum after twelve months.
4. The bank agrees to add the \$4,000 in arrears to the loan balance with a slight increase in monthly payments.
5. A borrower knows that he will be unable to make full payments of \$1,000 a month for four months. The bank agrees to accept \$500 a month for those four months, but requires \$1,250 a month for the following eight months to make up the \$2,000 shortfall.

The possibilities are endless. Be creative, but reasonable – after all, you don't know what your lender will accept until you ask.

Once you have successfully negotiated a work-out agreement with your lender, get it in writing. Most lenders will have their own work-out agreement, which you should have reviewed by an attorney.

ALTERNATIVE HELP

Should negotiations with your lender reach an impasse, there are other places to turn depending on the type of loan you have. If you have an FHA-insured loan, a VA loan or are active military there are special programs designed to help you with your default. **In fact, you should contact these agencies while you begin working with your lender.**

HOPE NOW

Hope Now is a Government funded program that assists borrowers who have the willingness and wherewithal to remain in their homes, but need some help to do it. Their goal is to keep people in their homes and when that is not possible, prevent foreclosure. You can find the help you need through their website - www.HopeNow.com or by calling **1-888-995-HOPE (4673)**

FHA – Federal Housing Administration

Within the U.S. Department of Housing and Urban Development (HUD) operates the Federal Housing Administration (FHA), which has the responsibility of administering the government's home loan insurance program. Under this program FHA reimburses a lender in the event there is a foreclosure. Because FHA removes the risk from the lender, this program allows home buyers to qualify for a home loan who might not otherwise qualify.

If your loan is FHA-insured you may qualify for assistance from HUD, which can result in a more favorable work-out agreement. To determine whether your loan is FHA-insured you can ask your lender, check your monthly mortgage statement for an FHA insurance fee, or contact HUD: 800-569-4287 - www.hud.gov/foreclosure

If your loan is FHA-insured you must request from your lender an assignment of your loan to HUD. It's not automatic. Simultaneously notify

HUD of your request. Ask HUD for a timeline and a list of forms and procedures – and follow them closely. If your lender does not cooperate with the assignment, do not hesitate to inform a local HUD office.

For the most part, the information required to compile a typical Work-Out Package will be the same information upon which HUD will base its decision to accept your assignment. Specific forms or formats may be required, but may only amount to a transfer of information. Should HUD accept your assignment you will deal only with HUD. However, if HUD rejects the assignment you will continue to deal with your lender.

VA – Department of Veteran Affairs

One of VA's critical functions is to help veterans keep their homes. Once a lender has reported to VA that a veteran is seriously delinquent on their mortgage payments, VA will contact the veteran and offer assistance in retaining the home or resolving the issue at the lowest possible cost to the veteran and VA. The VA also expects lenders to contact veterans who are in default and discuss a resolution. However, do not wait. Immediately contact your lender and VA should you miss a mortgage payment.

To check whether your loan is guaranteed by VA call the VA office nearest you or the number below and ask to speak with a loan service representative. 800-827-1000 www.homeloans.va.gov

If you qualify for a VA foreclosure avoidance program, alternatives to foreclosure can include:

- Refunding of the loan, whereby VA purchases the loan from your lender. This allows the veteran to stay in the home and make loan payments directly to VA.
- VA intervention with the lender on behalf of the veteran to set up a repayment plan, loan modification or forbearance program.
- A compromise claim for the difference of the loan when the lender is forced to sell at a cost lower than the amount of the loan.
- Accepting deeds in lieu of foreclosure.

SCRA

The very nature of military service often compromises the ability of service members to fulfill their financial obligations and to assert many of their legal rights. Congress and the state legislatures have long recognized the need for protective legislation.

The Service members Civil Relief Act of 2003 (SCRA) formerly known as the Soldiers' and Sailors' Civil Relief Act of 1940 (SSCRA) is a federal law that gives all military members (including reservists and the National Guard) some important rights as they enter and remain on active duty. While it addresses many financial issues, our focus is foreclosure.

A sale, foreclosure, or seizure of property is not valid if made during, or within 90 days after, the period of your military service, with some qualifications:

- To receive protection under some parts of the SCRA, you must be on active duty at the time of the request.
- You must be prepared to show that military service has had a "material effect" on your ability to make your payments. This involves a comparison of pre-service income and in-service income.
- A qualifying mortgage must have been obtained prior to your active duty.
- Relief is sought on an obligation secured by (a) mortgage, (b) trust deed or (c) other security in the nature of a mortgage on either real or personal property.
- You owned the property prior to the commencement of military service.
- You or your dependent still owns the property at the time relief is sought.

In many situations the SCRA protections are not automatic, but require some action to invoke the Act. To stop a foreclosure, you should send your lender a written request and a copy of your mobilization orders.

The 6% Interest Rate Rule

One of the most widely known benefits under the SSCRA and now the SCRA is the ability to reduce pre-service consumer debt and

mortgage interest rates to 6% under certain circumstances. If your military obligation has affected your ability to pay on financial obligations such as credit cards, loans, mortgages, etc., you can have your interest rate capped at 6% for the duration of your military obligation.

You should write your creditor and request that your interest rate be reduced to 6% according to the provisions of the SSCRA. While not actually required by the law, it's a good idea to include a copy of your orders placing you on active duty, as part of the request. The burden is on the creditor to seek relief in court if the creditor believes that your military career does not materially affect his/her ability to pay

If you think that you have rights under the SCRA that may have been violated, or that you are entitled to be shielded from a foreclosure, legal proceeding or financial obligation by the SCRA, you should contact your unit or installation legal assistance office.

REFINANCING

If you have sufficient equity in your home, refinancing can be a valid option even though your credit score has been hurt by a mortgage default. However, you will almost certainly have higher payments than you do now and it will be very difficult to tap your equity for cash.

Consider the following:

- Due to a higher interest rate, you'll be making higher payments for many years.
- A loan workout may be a better option - you should always approach it simultaneously.
- A loan from a private party will likely be a "hard money" loan with a short term balloon (and high interest), which could be difficult to refinance and impossible to keep current.
- Paying off your existing loan may result in steep prepayment penalties.
- You may not qualify for cash out, depending on your [FICO score](#).
- You can spend valuable time trying to qualify for a loan you'll never get. Again, do not solely rely on refinancing to keep your home - it's a risky proposition.

Should you have enough equity, a better strategy to pursue may be to obtain a small, short-term home equity loan, known as a home equity line of credit or "HELOC". By leaving the existing, more favorable 1st loan in place you will only borrow and pay higher interest on the incremental 2nd loan.

Some HELOC loan programs require no minimum [FICO score](#), so a poor credit score is not a problem in qualifying. Search for a reputable mortgage

broker in your area. A mortgage broker can search a database of potential lenders rather than the single source a bank will offer.

TO MONITOR YOUR SCORE MONTHLY USE [MYFICO](#).

SHOULD YOU SELL YOUR PROPERTY?

Despite good intentions, you may come to realize that keeping your home will only prolong the inevitable. You don't want to spend your precious time and money saving a property that you ultimately can't afford and will only cause more financial difficulties in the future. Although it might be difficult to accept, giving up your property may be the best alternative.

Rather than tapping all your resources to prevent foreclosure, the wiser approach might be to execute one of the following:

- A quick sale
- A short sale
- A deed-in-lieu of foreclosure

The method you choose is usually determined by whether there is equity in the property.

- Important: It is possible to incur an income tax liability through foreclosure or short sale, where a seller must count any amount forgiven by the lender as income and pay taxes on that income, even if no actual money was received. The IRS requires lenders to submit a Form 1099 stating the amount forgiven. Consult an accountant or attorney about the tax implications of a foreclosure in your particular situation.

Quick Sale

If you have equity in your property, selling it quickly may be the best strategy to avoid foreclosure. If your **Equity Analysis** produces a positive number, you may be able to eliminate your monthly payments, save your credit and retain some cash from the sale.

It may seem obvious, but hiring an experienced real estate agent is the best way to effectively market your property under severe time constraints.

Exposure in the MLS (Multiple Listing Service) alone is invaluable. Be sure to seek an agent who has experience selling properties that are in foreclosure.

Ask for referrals. Top real estate agents stay in business because satisfied clients refer them to friends, family, neighbors and co-workers. Successful agents make customer satisfaction a priority and testimonials will reflect that. Cross check local newspapers and the internet www.Google.com or www.Yahoo.com the top real estate companies in your area, go to those websites and look up profiles of individual agents at offices near you).

Again, keep an eye out for an agent who specializes in foreclosures. An experienced agent should be able to handle a possible short-sale and interact with your lender to postpone a foreclosure sale if necessary. Interview several agents and ask for references of people who were in similar situations. Make sure you're dealing with a full-time agent who is familiar with the area. Ask about pricing – top agents will advise to price a property below comparables to peak buyer interest and activity.

Short Sale

A short sale applies only if you do not have equity in your property – if your **Equity Analysis** produces a negative number. By definition, a short sale occurs when the net proceeds from the sale of a home are not enough to cover the mortgage obligations and closing costs, such as property taxes, title and escrow fees, transfer taxes, and commissions – and the seller is unwilling or unable to cover the difference.

Much of the information required for a work-out plan is also required for a short-sale (see the **Required Document Checklist** section). However, the purpose is different. In this case, the lender wants proof of your inability to pay back any of the debt being forgiven. Someone with the assets or the income to pay is unlikely to be considered for a short-sale. To that end, you will be asked to provide:

- A Comparative Market Analysis
- An Equity Analysis
- A Hardship Letter
- A Financial Statement, bank statements & tax returns.

In preparing the package, be careful about discrepancies between your income and the income used to obtain the loan. A big gap may indicate mortgage fraud unless employment circumstances have drastically changed.

If your bank statements reflect unaccountable deposits, large cash withdrawals or an unusual number of checks, be prepared to explain each of those line items to the lender.

You will also need to send a brief letter to all mortgage holders, giving them permission to speak with your real estate agent. Otherwise, privacy laws will prevent your agent from speaking with your lender(s). It will also help your agent build a relationship with the lender.

Since lenders rarely pre-approve short sales, the best approach is to list your property for sale and accept a written offer that is contingent upon a short sale. Accept the offer subject to your lender's approval and then have your real estate agent submit the sales agreement to your lender for approval.

Keep in mind that the purchase contract on a short-sale property is a legally binding agreement once the earnest money has been deposited. Without language in the contract stating that the lenders must approve the offer and release all liens on the property, you may face a legal problem for failing to execute the contract if the short sale is not approved.

As a condition to a short sale, many lenders ask sellers to sign a promissory note for all or part of the difference between the proceeds of the short sale and the mortgage. The note gives lenders the right to sue a seller and attach other assets if the note is not paid when due. In this case, a seller who does not have the resources to pay off a separate promissory note after a short sale might be better off letting the lender foreclose. In this case, it is particularly important to know whether you live in a state that has a non-recourse mortgage, where a lender cannot pursue a deficiency judgment against a seller after a property has foreclosed.

DEED-IN-LIEU OF FORECLOSURE

Under a Deed-in-Lieu of Foreclosure (also known as a "DIL," "deed-in-lieu," "friendly foreclosure" and "voluntary conveyance") you voluntarily deed your home back to your lender to avoid foreclosure and are released from all obligations under your mortgage. Your lender must also agree to proceed with a deed-in-lieu.

Generally, this is a last ditch effort to avoid the negative consequences of foreclosure – including a foreclosure on your credit. However, it may be the best strategy if you believe that your property is not worth saving after considering other work-out options. The following criteria will determine whether a lender will consent to a deed-in-lieu of foreclosure.

- A hardship has caused you to default and your financial situation is unlikely to improve. Otherwise, you may qualify for a work-out arrangement.
- Most lenders require that there are no junior liens on your property, since a deed-in-lieu would make your lender liable for the junior liens instead of eliminating them through foreclosure.
- If the value of your property exceeds the loan amount, you may be asked to participate in a short sale program before a deed-in-lieu is accepted.
- Some lenders will require that your home be listed with a real estate agent for a minimum length of time.
- An interior inspection will be made.
- Consult the FHA or VA if your loan is insured by either agency.

As with any of the foreclosure prevention methods discussed in this package, to be approved for a deed-in-lieu you will likely have to justify it based on your financial position. As in a short-sale, you must prove that you can not afford your monthly mortgage payments. Most lenders will require a supporting **Financial Statement**. You will need to contact the person at your lender who has authority to accept a deed-in-lieu (see the *Contacting Your Lender* section).

If your lender accepts a deed-in-lieu, the agreement is typically executed through an escrow company which receives your note (marked as "paid") from the lender. Escrow then records the deed used for transferring legal

ownership of the property and sends the note to the borrower. The borrower is then released from the liability of the mortgage payments.

- As with any work-out program, it is advisable to consult an attorney to finalize the details of the agreement and generate the appropriate documentation. Important issues to consider are how the deed-in-lieu is reflected on your credit report and whether your lender will pursue a deficiency judgment. If possible, you do not want to be left with any financial responsibility.

BANKRUPTCY

Bankruptcy may be the best, or only, solution to stop a foreclosure. However, it should be used exclusively as a last resort, since it always has long lasting consequences. **When you file bankruptcy, an "automatic stay" goes into effect.** The automatic stay prohibits most creditors from taking any action to collect your debts unless the bankruptcy court lifts the stay and lets the creditor proceed with collections.

There are two types of bankruptcy that usually pertain to an individual trying to avoid foreclosure:

Chapter 7 [bankruptcy](#) (liquidation or straight bankruptcy) is generally the simplest and quickest form of bankruptcy and is available to individuals, married couples, corporations and partnerships. A trustee (appointed by the court) gathers and sells your non-exempt property and uses the proceeds from the sale to pay your creditors.

Chapter 13 [bankruptcy](#) (wage earner's bankruptcy), is used to repay all or part of your debts over time without selling your assets. You can propose a repayment plan in which to pay your creditors over three to five years depending on your income.

Although your foreclosure may be temporarily suspended, there are possible negative consequences that should be considered:

- A bankruptcy will remain on your record for ten years.
- Your lender can work around the bankruptcy to foreclose.
- You relinquish control to the court.
- You must still attempt a work-out with your lender repay the past due amount.

Furthermore, a creditor can circumvent an automatic stay by petitioning the court to remove ("lift") the stay under certain circumstances:

- Plan payments are missed or late.
- The judge refuses to approve your plan and dismisses your case.
- The plan does not provide for repayment of missed mortgage payments in a reasonable time frame.

- You fail to maintain insurance on the property.
- You fail to keep the property in reasonable condition.

In summary, [bankruptcy](#) is a very effective method of delaying foreclosure. However, there is no guarantee that you will prevent the foreclosure altogether. A majority of homeowners who declare bankruptcy end up losing their home to foreclosure anyway. If you declare bankruptcy you could end up with both a bankruptcy and a foreclosure on your credit report, which looks worse than simply losing your home to foreclosure.

On the other hand, there certainly are times when bankruptcy is appropriate – we recommend you consult an attorney for more information. The information provided herein should NOT be construed as legal advice. This is only any attempt to explain bankruptcy and how it affects the foreclosure process. Again, please consult a local attorney to discuss your situation.

Click Here for [Bankruptcy Attorney](#)

Appendix A

WORK-OUT PROGRAMS

LOAN MODIFICATION

A Loan Modification (also known as a "Loan Mod," "Mod" or "Modification") is a permanent change to one or more of the terms of your mortgage. Generally a lender will consider a loan modification when foreclosure is eminent and the borrower's income has declined, but he/she can keep the loan current after a loan modification. Most often a modification involves any one or combination of the following:

- Temporary interest rate reduction
- Permanent interest rate reduction
- Term extension ("Re-amortize" the loan over a longer period)
- Loan recapitalization of all or part of the delinquency (increase the principal by some or all of the arrears)

REPAYMENT PLAN

A Repayment Plan (also known as a "Reinstatement Program," "Relief Provisions" or "Extension Agreement") is a written agreement with the lender that requires you to reinstate your delinquent loan through the payment of your regular monthly payments plus an additional amount so that the loan is brought completely current within some short period of time.

For example, your lender may allow you to repay your arrears through installment payments over six months while you continue to make your regular monthly payments. Alternatively, your lender may allow you to pay your regular monthly payment for some short period of time until you have the opportunity to pay the arrears in one lump sum payment.

FORBEARANCE

Your lender suspends and/or reduces your regular monthly payment for a period of time. Forbearance agreements are generally described as either "short-term" or "long-term." A short-term forbearance agreement allows for the suspension of up to three payments or a reduction in payments for up to 6 months with a repayment plan to follow at the end of the forbearance period. A long-term forbearance agreement allows for the suspension or reduction of payments for a period of 4 to 12 months with a repayment plan to follow at the end of the forbearance period. Generally, at the end of the

forbearance period, you will have up to 12 months to bring your loan completely current. FHA uses the terminology "special forbearance."

SPECIAL FORBEARANCE

HUD's Special Forbearance Initiative permits lenders of Federal Housing Administration (FHA) insured mortgages to assist creditworthy borrowers who are behind in mortgage payments because they are temporarily unemployed. Under the program, a lender may enter into a written agreement with a borrower whose FHA insured mortgage is at least three months but not more than twelve months overdue, and whose loan is not in foreclosure at the time the agreement is executed.

To be eligible, the borrower must have an FHA insured mortgage and:

- Have a good payment record and a stable employment history prior to the default.
- Have a verifiable loss of income or increase in living expenses.
- Be actively seeking employment, but have not received a commitment of re-employment at the time the lender is reviewing the borrower's financial information.
- Be an owner-occupant, committed to occupying the property as a primary residence during the term of the agreement.

The special forbearance is not available to borrowers who have repeatedly broken past forbearance plans without good cause. The forbearance agreement allows eligible borrowers to postpone monthly mortgage payments for a minimum of four months. While there is no limit on the maximum number of months, at no time may the agreement allow the delinquency to exceed the equivalent of 12 monthly PITI - principal, interest, taxes and insurance - installments. HUD requires that the lender verify the borrower's employment status monthly and renegotiate the terms of the special forbearance plan when the borrower's status changes. A borrower will not be able to obtain a special forbearance if the property is in such a deteriorated condition that repairs drain the borrower's monthly resources.

PARTIAL CLAIM

Under the partial claim option, a lender will advance funds on your behalf in an amount necessary to reinstate a delinquent loan. You, upon acceptance of the advance, will execute a promissory note and subordinate mortgage payable to the lender. Many of these promissory or "partial claim" notes carry no interest and are not due and payable until the borrower either pays off the first mortgage or no longer owns the property.

SHORT SALE

A short sale is sometimes used in those circumstances where you are behind in your mortgage, your default is due to some hardship, you are unable to make payments, and the value of your property is less than the amount of loan. A short sale allows you to sell your home and satisfy your mortgage for less than the amount of the loan. However, there may be tax ramifications associated with any short payoff or foreclosure. And, some states permit lenders to seek a deficiency judgment for the amount the payoff was discounted. See your state's foreclosure law for more information and check with an attorney for advice.

DEED-IN-LIEU OF FORECLOSURE

Under a Deed-in-Lieu of Foreclosure (also known as a "DIL," "deed-in-lieu," "friendly foreclosure" and "voluntary conveyance") you voluntarily deed your home back to your lender to avoid foreclosure and you are released from all obligations under your mortgage. Your lender must also agree to proceed with a deed-in-lieu of foreclosure.

Appendix B

YOUR CREDIT

Regardless of the road you take to resolve your foreclosure issues, your credit will suffer, so you need to think about [re-establishing your credit](#).

If you have some credit cards and loans being reported on time, good. Continue to keep those balances at a reasonable level and make your payments on time.

On the other hand, you might have to re-establish your credit by opening up a new account. Since past delinquencies can keep you from getting approved for a major credit card, only make one application. This will keep your credit inquiries low. If you get denied, try applying for a department store credit card. If that doesn't work consider getting a secured credit card.

Using Secured Credit to Rebuild Credit

If you've run into financial difficulty that resulted in damaged credit, you might find it hard to obtain new credit. Past credit mistakes can be nearly impossible to move past, especially when new creditors and lenders are unwilling to give you a second chance. What do you do when you need to re-establish your credit, but can't get a credit card? You get a [secured credit card](#).

A secured credit card operates just like a regular credit card. The major difference is that you, the cardholder, are required to make a deposit against the credit limit on the account. This creditor uses the deposit as security in case you default on credit card payments.

The credit limit on a secured credit card is usually 100% of the deposit you make. For example, if you make a \$500 deposit for a secured card, your credit limit will be \$500.

Secured credit cards usually have fees that regular credit cards do not. These fees include application fees, processing fees, and annual fees. Beware of cards with high fees because they can greatly reduce your deposit and ultimately, your credit limit.

Most damaged credit is a result of poor payment habits. When you can't get credit the traditional way, secured credit can help you demonstrate your improved payment habits. You can't prove a renewed ability to make timely payments until you have a new credit card.

Before you apply for a [secured credit card](#), make sure the creditor reports to all three major credit bureaus. If not, the card won't benefit you in terms of re-establishing your credit because future creditors won't have a way of seeing the payment history. It won't be included on your credit report or in your credit score.

After you've been approved, remember that your purpose for the card is to build a positive credit history. That said; don't use the card to incur debt. Instead, use your secured credit card to make small purchases that you can pay in full each month. If you can't afford to pay for a purchase, don't charge it.

Appendix D

INCREASING INCOME

The simple math behind incremental income can inspire anyone to work a little on the side. Earning just an extra \$100 a week generates \$5,200 a year – not bad for what may only be a few hours a week. Keeping your house is important, but you may be able to improve your life forever.

Consider Getting a Part-Time Job

First on the list is the most obvious. A comprehensive approach to saving your home may require obtaining a part-time job, if only for a few months to catch up. Of course, local classifieds are the primary source and most newspapers also post their classifieds on the internet. Other resources include websites like Craig’s List www.Craigslist.org.

Take in a Boarder to Help with Expenses

Ask friends and family for a referral if you don’t feel comfortable advertising.

Freelance – Consulting/Freelancing

There are a lot of [freelance jobs](#) that can be done from the comfort of your own home and will allow you to work around your existing schedule. Consider a part time job writing, typing, or proofreading.

Online Income - eBay

The opportunity to earn online income is greater than ever. It’s beyond the scope of this package to list the unlimited ways to generate extra income on the internet. There are literally hundreds of books dedicated to [selling on eBay](#).

Note: We recommend avoiding the usual “to good to be true” offers readily found on the internet, which will only waste your time and money. For example, earning hundreds of dollars a week doing online surveys seems like easy money, which should be a red flag. Indeed, those sites tend to be very unreliable and require a subscription fee. Be sure to thoroughly research any opportunity.

Start A Small Business

Today, tens of thousands of people are considering starting a home based business, and for good reasons. On average, people can expect to have two and three careers during their work life. Those leaving one career often think about their second or third career move being to their own home. People who have been part of the traditional nine-to-five work force and are on the verge of retiring from that life are thinking of what to do next. The good news: Starting a home-based business is within the reach of almost anyone who wants to take a risk and work hard.

Coaching you all the way, the experts at [Entrepreneur](#) guide you into the thriving home-based industry, revealing unique, slam-dunk opportunities, outlining vital business basics, sharing priceless industry need-to-knows, and so much more!

The information in this publication was meant to provide helpful information about preventing foreclosure and related topics. Our hope is that it has helped you.

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