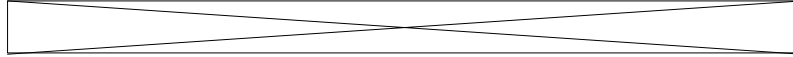


Facing foreclosure? You have options

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Tracey C. Velt , On Wednesday January 13, 2010, 6:00 am EST



When Lisa Powell bought her home in 2004, she knew her negative amortization loan wasn't a long-term solution, but the prospect of facing **foreclosure** never entered her mind. The payment was less than the interest accruing and the difference was added to the loan balance. "My lender told me I could refinance into a different loan in a year or so," says the 42-year-old business analyst from Manteca, Calif. "When I went to refinance, the home wouldn't appraise for the value. We owed \$400,000 on a home that was worth \$200,000."

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Fast forward a few years, after the loan had readjusted several times and Powell found she couldn't afford the payments. She tried to get a [loan modification](#) from the government's Home Affordable Modification Program, or HAMP, but her debt-to-income ratios were too low.

Finally, she put the home up for sale in April 2009 as a short sale. She was current on her payments and had an almost-800 credit score. However, Powell knew she couldn't keep up for long -- she was already maxing out credit cards to pay the mortgage each month.

Powell got an offer on the house right away, but the bank wouldn't approve the short sale. "I had to stop making mortgage payments for them to approve a short sale," she says. "That was devastating. I was never late on anything." She stopped paying and five months later, with foreclosure looming, the bank approved the short sale, and Powell breathed a sigh of relief. It damaged her [credit score](#), but it saved Powell from going even deeper into debt. "I had some credit cards cancel on me, others lowered my credit limit, but I know in two years I can start looking at home again," she says.

Caught in a similar situation, what could you do? If you've missed even one mortgage payment, time is of the essence. The foreclosure process in many states moves quickly. Here are some options:

1. **Home Affordable Modification Program (HAMP)**: "The very first thing you should do is check if you qualify for HAMP," says Rich Hayden, senior loan officer with HomeFirst Mortgage in Alexandria, Va. Through HAMP, the federal government offers borrowers with loans insured by Fannie Mae or Freddie Mac the opportunity to refinance into lower interest rate loans.

According to the Consumer Mortgage Audit Center, or CMAC, most loan modifications take at least one year to complete. The more organized you can be, the faster you'll help your case move through the system. Lenders, says CMAC, are asking for a minimum of:

- 30 days of paystubs, or most recent tax return, if self-employed.
- A personal debt report from one of the three major credit bureaus.
- A hardship letter, the format and requirements for which varies.

According to the Treasury Department, at the end of November 2009, only about 4 percent of the homeowners who signed up for loan modifications had received them.

If you qualify, it's time to call your lender. "You must be able to clearly state why you can't make your payment in full," says Hayden. Some lenders will set up a short-term payment reduction or temporarily waive your payment and add that unpaid amount to your principal. "And," says Hayden, "if the situation is dire, consider talking to a bankruptcy attorney to review your options."



2. **Short sale**: A [short sale](#) is when you sell a home for less than what is owed on the mortgage. While not as damaging to your credit report as a foreclosure, your credit score will take a hit nonetheless.

Before approving a short sale, lenders take into consideration the amount of assets a borrower has and whether the borrower is already in default.

To sell the home as a short sale, you should list it with a real estate professional that's well versed in these types of sales. "The concept of short sales being a viable option has gained new traction," says Aaron Lewis, a broker-associate with The Lewis Team at Prudential California Realty in Modesto, Calif. Servicers are hiring to handle the volume and the Treasury Department, Fannie Mae and Freddie Mac are all attempting to streamline the short-sales approval process.

3. Deed in lieu of foreclosure: "Basically, you're handing over the keys to the lender in lieu of actually going through the foreclosure process," says Hayden. The lender then sells the property to recoup a part or all of the loan balance. "It may be less invasive than a foreclosure, but it's just as destructive to your credit. If there isn't a clear path in sight, some borrowers make this choice," says Hayden.

4. Call your lender: The bottom line: If you're struggling to make your monthly mortgage payment or you've missed a payment, make a call to your lender. "Stay on top of it," says Hayden. "Far too often those who are behind on credit card or mortgage payments are afraid of the phone, because they've been receiving calls from collection agencies and fear they'll have their house taken out from underneath them. Know your rights and be honest about your situation."

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