

Options for the Homeowner Facing Foreclosure

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We recommend that you consult with a knowledgeable accountant or attorney as to how any of the options below may impact you as a homeowner/borrower.

Whether you are experiencing a severe hardship, you are about to default on your mortgage or you are just done paying for a property that is upside down, you as a homeowner/borrower have some options. The question is to opt for the one that best fit your situation and is the least damaging to you and your family.

Solution	Definition / Requirements	Pros & Cons	Collection & Foreclosure Time Line
Refinance <i>Best Option</i>	Property must have sufficient equity. Homeowner must qualify for a new loan.	Allows the homeowner to get a better interest rate & payments.	<p>Collection Phase Your loan is considered in default if payment is not received by the due date. Lender(s) start calling to collect on your late payment(s). Collection activities may last a few months based on your lender(s).</p> <p>Past 30+ Days You may receive a formal letter giving you 30 days to respond called: "Intent to Foreclose" or "Acceleration Notice"</p> <p>Foreclosure Phase Notice of Default "NOD" is filed. This is a 90 day period called the reinstatement period.</p> <p>90 Days Later Notice of Trustee Sale "NOTS" is filed.</p> <p>21 Days Later Sale/Auction Day is Scheduled. Property is sold at the steps of the courthouse to the highest bidder or goes back to the lender. Few days later, if property is still occupied, the homeowner(s) will be evicted.</p>
Reinstatement <i>Good Option But Should Make Financial Sense</i>	This will bring a loan current. Must be able to resume current monthly payment. May be used in conjunction with a loan mod.	Must have funds to bring loan current plus monthly income to make current monthly loan payments. May not be worthwhile for property with negative equity.	
Forbearance <i>A temporary solution</i>	This short term payment arrangement will give a homeowner some breathing room to catch-up on late payments. May require some funds to bring loan current. Must demonstrate ability to repay.	This is not a long term solution (about 6 months) & typically the first step in the loan modification process ("A Trial Modification"). This might be a good solution for a property with equity and a homeowner who can qualify for a loan modification.	
Loan Modification <i>Good Option If Homeowner Qualifies</i>	A restructuring of the existing loan terms. New monthly payment for all loans including property taxes & insurance cannot represent more than 31% of borrower's gross household income.	A good option for a property with equity or minimum negative equity. The interest rate is lowered and the length of the loan extended. Lender will typically require homeowner to open an escrow account to pay for property taxes & insurance monthly.	
Short Sale <i>Good Option If Lender's Offer Is Fair to Homeowner</i>	This will allow a homeowner to sell a property that is upside down when the property value is less than all loans combined. All lenders must agree, a valid offer close to, or at fair market value must be presented to lender(s). Must have a valid hardship. This process may take from 2 to 6 months based on lender and allowing homeowner to stay in the home longer.	May get cash from lender for moving expenses ("Cash for Keys"). Homeowner's credit score is not as severely affected as a foreclosure or deed in lieu allowing a borrower to rebuild hi/her financial life much faster. Remaining balance on a loan can be extinguished. Possible deficiency issues and tax consequences. Promissory note & cash contribution may be required but not always, however negotiable in exchange for full release of liabilities.	
Deed In Lieu <i>A Damaging Option To Homeowner's Credits</i>	The homeowner essentially gives the property back to the lender instead of proceeding with foreclosure. A lender rarely accepts this option and properties with more than one loan are not likely to qualify.	This option is almost as bad as a foreclosure and will affect a homeowner's credit significantly. Possible tax consequences exist.	
Foreclosure <i>This Option Has Many Negative Consequences</i>	If no action is taken by the homeowner, the property will be taken by the lender through a foreclosure action. See foreclosure timeline.	This option has the most devastating effect on one's financial life and will remain on a borrower's credit report for 7-10 years. This will wipe the liability on the remaining balance of a first and second purchase money loan (some exceptions exist such as mortgage fraud) but most likely not on a second loan that is refinanced or on a line of credit not used to buy the property. A "refi" lender in 2nd position (2nd loan) may still have the right to sue the borrower for the balance of the loan. Possible tax consequences exist.	
Bankruptcy <i>Could Be Used After A Short Sale/Foreclosure</i>	This option does not stop a lender from foreclosing. This only delays the process by one or two months.	The best use of this option would be to wipe-out the liability of a refinanced second or a line of credit. This will affect a borrower's credit. We recommend that you consult a bankruptcy attorney.	