

OPTIONS IN FORECLOSURE

III. WHEN YOU CAN'T KEEP YOUR HOME

Washtenaw County MSUE
Mortgage Foreclosure Prevention Program (734) 997-1678

A mortgage crisis can be a stressful time and many decisions must be made by the homeowner. When the homeowner avoids dealing with the crisis it can mean a loss of control over their finances and a loss of control over the impact the mortgage crisis can have on their credit report. If, after a review of your finances and conversations with your lender and housing counselor, it is determined that you can't keep your home there are still options available to you to AVOID a foreclosure on your credit report.

I. PRE-FORECLOSURE SALE OR STRAIGHT SALE : Even in a bad housing market put the house up for sale with a reputable realtor at a fair market price. Interview the realtor to be sure they have experience with foreclosures and short sales.

1. Ask the lender to delay the foreclosure sale and for permission to complete a pre-sale. GET THE AGREEMENT IN WRITING.
2. In a bad real-estate market do not assume that the house will sell quickly.
3. A pre-sale works if the sale price is high enough to pay off the mortgage, any home equity loans, back taxes, selling expenses and foreclosure fees.

II. SHORT SALE: The lender may allow you to complete a sale even though the price is less than what you owe them.

1. Ask your lender to delay the foreclosure sale and for permission to complete a short sale. GET THE AGREEMENT IN WRITING.
2. Ask the lender to "cancel any deficiency," so that the lender will not demand repayment of the rest of what you owe and will not report the deficiency to the credit bureaus. Get all commitments in writing.
3. Do a short sale only after you learn about the income tax consequences of this option. In situations like this, the IRS considers the amount of debt the lender cancels for you (the amount you don't pay back) to be income! If you have lost income and will be in a lower tax bracket, it could work out fine. If not you could be left with a big tax bill. Talk to a tax professional, a tax lawyer, or a non-profit advocate familiar with tax law. If you will owe the IRS, how will you pay them? If by doing a short sale you will be facing a big tax bill you cannot pay, sometimes the better choice is to let the foreclosure proceed.

III. MORTGAGE ASSUMPTION: A third party takes over your mortgage, brings it current and continues paying it.

1. Some mortgages are assumable, others are not. Look at your original mortgage documents or ask your lender. The person assuming the mortgage

OPTIONS IN FORECLOSURE

III. WHEN YOU CAN'T KEEP YOUR HOME

Washtenaw County MSUE

Mortgage Foreclosure Prevention Program (734) 997-1678

must qualify with a good credit score, good debt to income ratio, strong credit history.

2. See a lawyer before you proceed with a mortgage assumption because when someone else assumes the mortgage, they become the new owners of the home. It may work, but you need to fully understand it and avoid some major pitfalls.

3. Sometimes adult children assume their parents' mortgage or vice versa in order to keep the equity (the amount of the house that you own) from being lost to foreclosure and to keep the equity within the family. Consider this if you have an assumable mortgage, have a lot of equity in your home and have a relative who has the money, credit, and willingness to assume the mortgage.

4. **DO NOT WORK OUT AN ASSUMPTION** with strangers or real estate companies who claim to want to "save your house." There are scammers in the community that will offer to assume the mortgage and allow you to become a renter. While you are "renting" from them they can "strip" or take the equity in the home and often times will leave town allowing the home to foreclose anyway.

IV. DEED IN LIEU OF FORECLOSURE: You voluntarily turn over your house to your lender. This is almost always a bad idea for you and a good idea for your lender.

1. **DO NOT DO THIS** unless you get something in return and in writing.
2. Ask the lender to:
 - a. Cancel any deficiencies and fees.
 - b. Eliminate negative credit references.
 - c. Allow you to have extra time in the house.
 - d. Pay your moving expenses.

V. GENERAL FORECLOSURE SELLING TIPS

1. Record information on calls. Open and keep **ALL COMMUNICATION** in writing. Get all agreements in writing.
4. *Never* sign a release giving up all legal claims until the actual workout agreement with your lender is finalized.
5. If you are ever unsure, seek advice from an attorney or non -profit housing counseling agency.
6. Stay organized. Stay focused.