

Are You Having Problems Paying Your Mortgage?

Learn How to Avoid Foreclosure and Keep Your Home

Center for Responsible Lending

NeighborWorks[®] America

National Association of REALTORS[®]
The Voice for Real Estate

IF YOU'RE HAVING TROUBLE PAYING YOUR MORTGAGE, YOU'RE NOT ALONE

For decades, homeownership has benefitted families and communities all over America with greater stability, economic prosperity, safer neighborhoods, better educational opportunities, and even improved health. The recent increase in foreclosures threatens previous gains made in homeownership, as millions of families who had hoped for sustainable homeownership are now struggling to pay their mortgages. This brochure is designed as a quick reference for resources to help families who are at risk of foreclosure, and also provides information on how to avoid the type of loans most likely to lead to trouble.

If you are having trouble paying your mortgage for any reason, or expect problems, you should work with your loan servicer (the company that collects payments on your mortgage) or other experts to find a solution now. If you fall behind and don't take action, the lender will foreclose on your home. If that happens, you may lose your home and all of the money you have already invested in it. The sooner you act, the better the chances you will avoid foreclosure.

The Center for Responsible Lending estimates that over 2 million American households with subprime mortgages have lost or will lose their homes by the end of 2009. Their neighbors will suffer financial losses, too, as these foreclosures cause nearby property values to drop by \$356 billion.

This brochure will help you understand your options and give you tips on how to avoid losing your home—regardless of what kind of mortgage you have.

<p>If you're in trouble, call an attorney, your local Legal Aid office, or 888- 995-HOPE</p>

TALK TO YOUR LENDER OR SERVICER

Talking to the lender, or loan servicer, the company that collects the payments, should be one of your first steps. The earlier you call, the better your chance to work out a solution. Here are some options:

- **Loan Modification.** Loan servicers can help you catch up on late payments or amend your mortgage to make it more affordable. For homeowners who face losing their home, a loan modification is often the most effective way to avoid foreclosure. The options include:
 - Adding all the missed payments to the loan amount and changing the monthly payment to cover the larger loan.
 - Giving you more years to pay off the loan, lowering the interest rate, and/or forgiving part of the loan, to lower your monthly payment.
 - Switching from an adjustable rate mortgage to a fixed rate mortgage, so you can avoid higher monthly payments.
 - Requiring amounts for taxes and insurance to be included with your monthly mortgage payment so you avoid big bills in addition to your mortgage.

Other options include these:

- **Repayment Plan.** If you can start making payments to catch up, the lender may let you pay an additional amount each month until you are caught up.
- **Forbearance.** Lenders may let you make a partial payment, or skip payments, if you have a reasonable plan to catch up. Tell your lender if you expect a tax refund, a bonus, or a new job.
- **Reinstatement.** Reinstatement refers to making a payment that covers all your late payments, usually at the end of a forbearance period.
- **Sign Over the Property to the Lender in Exchange for Debt Forgiveness (often called “deed in lieu of foreclosure”).** This can hurt your credit, but is better than having a foreclosure in your credit history.

Watch out for companies that ask you to sign papers that waive your right to pursue legal actions against them—especially if you expect to continue struggling with your home loan.

HOW REALTORS[®] CAN HELP

REALTORS[®] are in the business of helping people become homeowners and want to do everything they can to make sure you can afford to stay in your home.

- The best and least expensive option may be working with the company that collects payments on your mortgage (the loan servicer, which often is not your original lender).
- If your loan servicer isn't willing or able to help, check into refinancing your current mortgage with another lender. REALTORS[®] can help you find lenders that make fair and affordable loans.
- Ask your REALTOR[®] or counselor if there are state and local government and local nonprofit organization foreclosure prevention programs and who to call.
- Counseling agencies are in the business of helping borrowers like you. Check out **Counseling Resources**.
- Remember, you should shop just as carefully for a mortgage as you do for a car or anything else you buy. Getting the lowest possible rate and fees can save you many thousands of dollars over the life of the loan.
- Sometimes the only option is selling the home. Of course, no one is better at helping a seller than a REALTOR[®]. It is better to sell than go through foreclosure because (1) you can profit from any equity that remains in the home, and (2) it will be easier to qualify for credit in the future and buy another home.

Be wary of advertisements like “Cash for Houses/Any Situation” or “We Buy Houses for Cash.” Many of these are scams that falsely promise rescue from a foreclosure. Unfortunately, the “rescue” often involves the homeowner signing over the house and the family being evicted from its home.

COUNSELING RESOURCES

Nonprofit organizations and other experts dedicated to helping consumers avoid foreclosure can be invaluable.

- Consider contacting your attorney or a local Legal Aid office, especially if you have reason to believe you were the victim of questionable lending practices. A good place to start is at www.lawhelp.org.
- NeighborWorks[®] organizations work with the Homeownership Preservation Foundation to offer a nationwide assistance number—888-995-HOPE. You can speak with a counselor, day or night, to help you get back on track financially. (English and Spanish)
- Reputable counseling agencies, such as NeighborWorks[®] organizations, can help you avoid foreclosure. Look up your nearest NeighborWorks[®] organization at www.nw.org.
- The U.S. Department of Housing and Urban Development (HUD) website has a list of HUD-approved counseling organizations, by state (www.hud.gov/counseling). We recommend that the list be used as a starting point to find good counselors. You also can call 800-569-4287 or TDD 800-877-8339.

Watch out for questionable counseling companies who advertise that, for a minimal fee, they will hire a lawyer to defend the foreclosure in court or negotiate lender assistance on your behalf. You should call a HUD-approved counseling organization, a local NeighborWorks[®] organization, or 888-995-HOPE before you pay or sign anything.

WHAT IF I CAN ONLY SELL MY PROPERTY FOR LESS THAN I OWE MY LENDER?

If you are struggling with your home loan and the value of the property is less than the mortgage amount, make sure you explore all options with your servicer, as well as an attorney or a housing counselor. In some cases, REALTORS[®] can help explain to the lender why it makes sense to sell the property for the best price and then forgive the remainder of the debt.

Until recently, the amount of debt the lender cancelled was treated as income when you filed your tax return. REALTORS[®] and others helped pass legislation that will prevent this tax burden from being placed on eligible homeowners who are relieved of their obligation to pay some portion of their mortgage debt between January 1, 2007 and December 31, 2012. Full relief is available only if the amount of forgiven debt does not exceed the debt that was used to acquire, construct, or rehabilitate a principal residence. Other limits also apply; consult your tax adviser or IRS guidelines for details.

Some lenders may require you to sign a promissory note for the difference between the value of the home and the amount owed. Before you sign any documents, seek the advice of a housing counselor or lawyer.

FIND OUT MORE: QUICK REFERENCES FOR CONSUMERS

To help educate home buyers and homeowners about today's mortgage options, the **National Association of REALTORS® (NAR)** and the **Center for Responsible Lending** have produced a series of consumer information brochures. This is one of a series, which also includes:

- How to Avoid Predatory Lending
- Specialty (Nontraditional) Mortgages: What Are the Risks and Advantages?
- Traditional Mortgages: Understanding Your Options

NAR also has issued a brochure in partnership with HUD's Federal Housing Administration:

- FHA Improvements Benefit You

You can find all the brochures on NAR's website (go to www.REALTOR.org/subprime).

MORTGAGES WITH “PAYMENT SHOCK”

The best defense against a bad mortgage is avoiding loans that can quickly ratchet up the monthly payment. Mortgages like these can give you a “payment shock”:

- **2/28s and 3/27s.** A 2/28 or 3/27 adjustable rate mortgage gives the borrower a fixed payment for the initial two- or three-year period before becoming an adjustable rate mortgage. After the initial period, your mortgage payments typically adjust up, often substantially, every six months.
- **Interest-Only.** An interest-only mortgage lets you pay only the interest on the loan for the first 5 or 10 years and nothing to pay off the loan amount (principal). After the interest-only period, the mortgage requires much higher payments covering both interest and principal that must be repaid over the remaining years of the loan.
- **Payment Option Adjustable Rate Mortgages.** “Payment option” mortgages allow a number of different payment options each month, including paying less than the amount of interest due. The unpaid interest gets added to the total owed, which over time can quickly snowball into an unaffordable loan. When the unpaid portion comes due, these mortgages can have an especially big payment shock.

Be careful if your mortgage has any of the following features:

- A “teaser rate” or “no interest” period that expires and leads to a big jump in your monthly payment.
- An option to pay less than the full interest due in any given month.
- An adjustable interest rate with very high limits on the amount your payment can go up.
- A monthly payment that doesn’t include an amount for property taxes and homeowners insurance. This means you may be hit with big bills you didn’t expect.
- A prepayment penalty that requires you to pay the lender a penalty fee if the mortgage is refinanced or otherwise paid off before a specified period.

WATCH OUT FOR PREDATORY LENDERS

Here are some warning signs:

- **Sounds too easy.** “Guaranteed approval” or “no income verification” regardless of borrower’s current employment, credit history, and assets. These claims indicate the lender doesn’t care about whether you can afford to make the payments over the long haul.
- **Excessive fees.** Higher lender and/or mortgage broker fees than are typical in your market. Because these costs can be financed as part of the loan, they are easy to disguise or downplay. On competitive loans, fees may be negotiable. It is common for home buyers to pay only 1 percent of the loan amount for prime loans. By contrast, a typical predatory loan may cost 5 percent or more.
- **Large future costs.** High-risk adjustable rate mortgages where the payment rises a lot after the initial interest rate period are seldom appropriate for families who already have had problems repaying other loans. Home buyers should avoid “balloon” payments (a lump sum due at the end of the loan’s term).
- **Closing delays.** The lender delays closing, so your commitment on a reasonably priced loan expires.
- **Over-valued property.** Inflated appraisals that allow excessive fees to be included in the loan and result in the borrower owing more to the bank than the home is worth.
- **Barriers to refinancing.** Prepayment penalties that make it hard for a borrower to refinance in order to pay off a high-cost loan by refinancing into a low-cost loan.

- **No down payment loans.** These loans may be split into two mortgages, with one having a much higher cost. Home buyers should be sure they can afford the payments.
- **Unethical document management.** Ethical lenders and brokers always require you to sign key loan papers, and never ask you to sign a blank document or a document dated before the date you sign.

ADDITIONAL RESOURCES

For immediate advice, call **888-995-HOPE** to speak to a counselor on how to avoid foreclosure. Available in English and Spanish, 24/7. Or visit www.995hope.org for more information.

HUD Resources:

- List of HUD-approved counseling agencies: www.hud.gov/counseling.
- **"How to Avoid Foreclosure"**(aimed at FHA borrowers but can help others as well). www.hud.gov/foreclosure.

Freddie Mac: "Keeping Your Home, Protecting Your Investment." Go to www.freddiemac.com and search for this brochure by typing in the full name of the brochure.

Ginnie Mae: For a simple calculator to help home buyers estimate how much they can afford to spend, read **"How Much Home Can You Afford?"** <http://www.GinnieMae.gov>.

"Looking for the Best Mortgage" is a brochure issued by 11 federal agencies on how to shop, compare, and negotiate the best deal on a home loan. www.federalreserve.gov/pubs/mortgage/mortb_1.htm.

Americans for Fairness in Lending: To find consumer resources related to a variety of lending issues, go to www.affil.org.

Center for Responsible Lending focuses on predatory lending with consumer resources here: <http://www.foreclosurelegalassistance.org/resources>.

Consumer Handbook on Adjustable Rate Mortgages (the "CHARM" booklet) issued by the Federal Reserve Board (FRB) and the Office of Thrift Supervision (OTS). <http://www.FederalReserve.gov> . At the FRB site, click on "publications and education resources" and then on "consumer information brochures."

Credit-reporting agencies:

Equifax (800) 685-1111 www.Equifax.com.
 Experian (888) 397-3742 www.Experian.com.
 TransUnion (800) 916-8800 www.TransUnion.com.

Go to www.AnnualCreditReport.com to ask for a free copy of your credit report, once a year, or call 877.322.8228. See also www.FTC.gov.

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The National Association of REALTORS®,

“The Voice for Real Estate,” is America’s largest trade association, representing more than 1.2 million members involved in all aspects of the residential and commercial real estate industries. For more information, visit www.REALTOR.org.

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation’s largest community development financial institutions. For more information, visit www.ResponsibleLending.org.

NeighborWorks® America creates opportunities for people to improve their lives and strengthen their communities by providing access to homeownership and to safe and affordable rental housing. For more information, visit www.NW.org.

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