The Massachusetts Homeownership Collaborative

HOMEBUYER COUNSELING CORE CURRICULUM

SECTION IX: SUCCESSFUL HOMEOWNERSHIP

Section Objectives:

- To emphasize the financial and property management responsibilities of homeownership
- To instruct participants on keeping accurate and complete records
- To help participants avoid scams and predatory lending practices
- To alert participants to the risk of default and foreclosure, and educate them about resources available to help them avoid foreclosure

A. Responsibilities of Homeownership

As a new homeowner you will make perhaps the greatest financial investment in your future. It is essential that you protect your new asset; the information in this chapter will help you maintain your home and protect and increase its value. It will explain your financial obligations as a new homeowner, as well as the importance of budgeting, record keeping, regular home maintenance and the ability to adjust in the event of an unavoidable financial crisis.

B. Financial Responsibilities

What is a budget?

- A plan to spend your money. Creating a budget allows you to determine in advance whether you will have enough money to do the things you need to do or would like to do.
- A plan to reach a particular goal
- A guide to help organize finances
- A strategy for spending and saving

How Can a Budget Help You be a Successful Homeowner?

- It will help you keep track of where your money is being spent
- It can help you increase savings
- It will help you decide what you can or cannot afford
- It will help prevent or reduce impulse spending
- In times of financial crisis, it can help you prioritize your expenses and identify ways to increase your income so as to protect against the financial effects of unemployment, accidents and sickness

How Homeownership Changes Your Budget:

Homeowners must pay a new set of expenses which include: mortgage payment, property taxes, home insurance, water and sewer, electric, heating and home repairs and improvements. Homeownership can be very expensive with many hidden or unexpected costs.

Monthly Mortgage Payments

Paying your monthly mortgage payment on time is essential.

- Late payments will severely impair your credit rating
- Late payments will result in spending more money to cover late payment charges imposed by the lender
- Failure to make payments can set into motion the lender's action to foreclose and sell the house
- Experts advise keeping a separate account for your mortgage payments.
- Whenever possible, prepay your mortgage. You can save money in interest over the life of your mortgage by including some extra money with you regular payments. Make sure to indicate that this money should be applied directly to your principal to reduce your loan balance.

Read your entire mortgage and note. Make sure that you understand all the terms of your mortgage, even the small print. Ask questions:

- When are your payments due? (The lender should receive payments no later than the due date. The "grace period" should only be used in emergencies.)
- Has the lender provided you with a payment book? (If you don't get a payment book immediately, make sure that you know where and when to send the first payment.)
- Where are the payments to be sent? Does the lender offer online payment? Can your payments be set up for automatic withdrawal?
- Will you be charged a penalty if your payment is late?
- If you have an adjustable-rate mortgage (ARM), how far ahead of time will you be notified that your monthly payment is being increased?
- What index is your ARM based on and where is this index published so that you can keep track of it?

- How often can your monthly payment be changed and how much can it change? How much would you owe each month at the highest level?

Home Maintenance and Repair

Now that you have responsibility for your new home, it's up to you to make sure that it stays in good condition. Regular savings are important to pay for routine maintenance and unexpected expenses.

- **Budget for regular maintenance and expected repairs.** Some experts suggest budgeting 1% of the purchase price of the house for annual maintenance and repairs.

- **Adhere to a regular savings plan.** Many financial advisors suggest saving 5% of your take-home pay. You have to make this a top priority if it is to work; you can't just save whatever you have left at the end of the pay period.

- **Always keep an emergency fund on hand.** You need to have a "nest egg" (three to six months of monthly expenses is often recommended) so that you can replace the hot-water heater when it suddenly springs a leak. If you don't already have such a fund, start one. It's only a question of time before you'll need it.

- **Plan ahead for major purchases** rather than making impulsive decisions. If you must finance a purchase, shop around for financing. Try to save up for things you need rather than charging them. It's tempting to want to buy new furniture and/or new appliances for your new home. Make sure these purchases won't put a strain on your budget.

Other Expenses

Your budget should include other expenses associated with home ownership (that you may not have had as a renter):

- Property taxes, if they are not paid by the lender out of your regular mortgage payment (including possible increases in property taxes over time

- Homeowner's insurance

- **Private mortgage insurance (usually included in the mortgage payment until you have 20% equity in the property; you can contact the lender to cancel)**

- **Water and sewer bills**

- **Utility bills**

Apply for an "average payment plan" or "budget plan" with your utility companies. Based on the history of gas or electric use in the home, the company arrives at an estimated annual cost and divides it by 12 months. You are billed for the same amount every month, though the utility company still keeps track of how much you use. Once a year, the company adjusts your average monthly payments up or down according to your actual use, but then you continue that same amount for another year. This helps tremendously with budgeting, since you know in advance how much the bill will be.

You can also ask about weatherization options and assistance. Many utility companies will perform a free home energy audit and explains ways to save money and energy in your home. There are also a number of products available to help save electricity, gas, heat and water. Many utility companies sell these on long-term payment plans.

C. MAINTENANCE AND REPAIR RESPONSIBILITIES

As a homeowner, you can't afford to sit back and wait for something to break before you fix it. In many cases, you can extend the life of things and avoid expensive repairs by doing routine maintenance.

- **Do periodic/seasonal home inspections.** Mark your calendar so you won't forget. Look into free energy conservation audits by your local electric and/or gas company; water and sewer inspections are also available.

- **Establish a repair/replacement schedule.** Wood houses need to be painted every 4-5 years ($5,000-$10,000). New roofs can cost $1,000-$10,000. Plan ahead and you'll save money. Your home inspection report may be helpful in anticipating and prioritizing repairs and replacements. **Make sure you always request 3 estimates for work done on your home, in order to compare costs.**

- **Plan for home repairs and improvements. Establish a home repair savings account and include it in your budget. Shop around for financing. Identify assistance programs that** can help to finance repairs or improvements (call your local city/town hall for information).

- Avoid scams and predatory lenders. Verify that all contractors are licensed; check with the local Better Business Bureau to make sure that no complaints have been made recently against a contractor; ask for and verify references. Ask for recommendations from friends and neighbors or local non-profit agencies. BE WARY OF CONTRACTORS WHO CALL YOU OR WHO STOP BY UNINVITED.

D. HOME SAFETY RESPONSIBILITIES

Home safety is an important part of protecting your new investment. Once you've moved in, there are a few simple safety precautions you should take:

- **Emergency numbers.** Program them into your cell phone or post them near your home phone.

- **Smoke detectors.** Make sure that smoke detectors are installed outside each bedroom and in or near the living room. Check them periodically to ensure they are still in working order.

- **Fire extinguishers.** Buy at least two fire extinguishers and hang them so they are easily accessible from the kitchen and from the main living room. For a larger house, place additional fire extinguishers in the garage, the basement and on each floor.

- **Carbon monoxide detector.** . In most residences, carbon monoxide alarms are required to be located on every level of a home. On levels with sleeping areas, the alarms must be placed within ten feet of the bedroom doors.

- **Fire-prevention inspection tour.** Many communities will send a fire inspector to your house upon request to help you identify fire hazards such as frayed electrical cords, an overloaded electrical system and clutter in the basement or attic. If this service is not available, do your own inspection tour.

- **Theft protection.** You probably will want to change the cylinders in all the door locks and have a new set of keys made. You have no way of knowing how many sets of keys there might be to the existing locks and who has them. Make sure that all the doors and windows have locks. Consider having an extra set of keys made and give to a neighbor or friend in case of an emergency.

- **Child safety precautions**. For homes with young children, there are extra precautions you may want to take. These include:
  -Child safety covers on electrical outlets
  -Window guards can be easily installed and can help parents protect their children from window falls.
  -Setting the temperature of your hot water heater to 120 degrees to prevent scalding and burns.
  -Securing appliances, bureaus, entertainment centers or other heavy pieces of furniture, including the refrigerator, dishwasher, and oven, with an appliance locking straps or anchors.

- Lead-Based Paint Hazards. Many homes built before 1978 have lead-based paint. Lead-based paint is usually not a hazard it if is in good condition and it not chipping, peeling or otherwise damaged, however, lead-based paint in poor condition can pose significant health risks for small children. If your home was built before 1978, you will want to make periodic inspections to ensure your paint is in good condition. If you decide to do home repairs, improvements, or paint abatement, make sure to hire a contractor familiar with lead-safe practices. You can call the Massachusetts Department of Public Health's Childhood Lead Poisoning Prevention Program at (800) 532-9571 for a list of certified lead removal contractors and inspectors.

- Collect your important papers such as your closing documents and the deed to the house and put them in a fire safe box. You may want to consider renting a safe deposit box.

- Develop a home maintenance schedule of regular home maintenance tasks that need to be done monthly, quarterly or on an annual basis.

- Check to see that your entry ways are well light. Consider installing motion detector lighting near doors and driveways.

E. INSURANCE COVERAGE

Insurance coverage is an essential part of protecting your investment, so you will want to make sure that it is complete and up-to-date.

Your home is probably the most valuable thing you own, so be sure to protect it with homeowners insurance, which pays to repair or replace the home if it is damaged or destroyed by disasters such as storms or fires. Homeowners insurance is required if you have a mortgage.

Experts recommend that a homeowner carries enough insurance to cover rebuilding your home, the value of your possessions as well as living expenses during rebuilding.

It is important to understand the difference between replacement value, the cost to replace your house and possessions to a similar status as what was destroyed and actual value, the actual market value of your home and possessions at the time of destruction. If you do not have replacement value, you would be responsible if the market value of your home or possessions is less than the replacement costs.

Your homeowner's insurance policy may include an inflation rider, which automatically increases the coverage as the value of the property increases. If not, you should check each time you renew the policy to ensure that the replacement value specified by the insurance keeps up with the current market value of your house. Otherwise, in the event you have a claim, you risk not being reimbursed for the full amount of the damage.

You should also make sure that your other insurance coverage is adequate:

- Life insurance
- Flood insurance
- Title insurance
- Tenant relocation insurance
- Rent loss insurance
- Disability insurance (particularly if you are in a hazardous occupation)
- Auto insurance

(See the section on Insurance for more details.)

F. KEEPING RECORDS

Save all papers relating to your new home, including the closing documents. This information can be particularly important if you fall behind in your payments or if your loan servicer changes or makes a mistake.

For tax purposes, it is also important to keep accurate and complete records of the cost of any improvements you make to your house. Although the cost of improvements is not deductible, they increase your home's "basis" – which in turn determines the amount of your gain for tax purposes when you sell it. . Your basis is what you paid for your home originally, including purchase expenses, plus improvement costs you incur while you own it. Keeping track of the basis, by keeping detailed records of improvements, is very important for accurately computing gain or loss if you decided to sell. Some of the closing costs you incurred when you bought your home also can increase your home's "basis" when you sell and can be deducted too. So don't throw your settlement sheet away.

Example: Joe bought a house for $22,000 and over 20 years built two additions, finished the basement and replaced windows and carpets as well as made continuous improvements. When Joe sold his house, the house was appraised at $150,000. That was a $128,000 gain, which is taxable income over how much he purchased the home for. Joe saved all his receipts over the years and found that his improvements totaled $170,000. Joe did not have to pay taxes on his "profit" because he had kept good records for the improvements he had made to the property.

- Use a checking account to pay bills and track payments (two checking accounts if you have rental property).

- Keep canceled checks or copies of your bank statements to verify payments.

  It is critical to keep accurate records and all papers relating to your mortgage and mortgage payments. Loan servicers can make mistakes when crediting mortgage payments. Your canceled checks are proof of your mortgage payments.

- Save receipts from cash expenditures to serve as proof of purchases and to validate warranties on products, such as appliances.

- Establish a file system:

-- For tax deductible expenses (mortgage interest, points as interest, real estate taxes, rental costs and depreciation)

-- For home improvements (keep records of all repairs, routine maintenance and improvements, and the receipts for this work)

-- For warranties and owner's manuals and other documents, including those you obtained from the previous owner

-- For any correspondence or conversations with your loan servicer

-- For your amortization schedule and your annual escrow analysis

-- To maintain a history of purchases and credit payments in the event of future product problems or payment disputes.

G. TAX PLANNING

For many years, the federal government has actively promoted home ownership by providing homeowners with significant tax benefits that are not available to renters.

Perhaps in the past you have always taken the standard deduction rather than itemizing your deductions on your federal income tax returns. Once you are a homeowner and can deduct interest you pay on your mortgage and certain other expenses, you will probably need to use Form 1040. You should consult an attorney or accountant since tax laws change over time and situations may vary.

Tax benefits of homeownership include:

- *Interest.* The deduction for interest alone may save you a great deal in federal income taxes. Especially in the early years of your mortgage when the bulk of your monthly mortgage payment is interest.

  For example, suppose you are paying 10% on an $80,000 fixed-rate mortgage payable over 30 years. Your monthly payments (P&I only) are $702, or $8,424 per year. In the first year of the loan, you will pay the lender $7,944 in interest and only $480 in principal!

Your lender will provide you with a statement each year showing how much interest you have paid and your principal balance at year-end. You can also ask your lender to provide you with an amortization schedule that will show how much principal and interest you will be paying for each month of your mortgage.

If you are paying off both a first and second mortgage on your house, the interest you pay on the second mortgage may also be deductible. In the first year as a homeowner, your tax break may even be larger since any points you paid to the lender in the process of obtaining your mortgage also count as an interest payment.

- *Property Taxes.* Federal tax law also allows a deduction for taxes on real property paid to state or local jurisdictions. This means that as a homeowner, your real estate (or property) taxes are deductible. You may also be eligible for a tax abatement or other tax relief, based on income, age, disability, or other factors.

- *Moving Expenses.* You may be able to deduct your moving expenses if the move to your new home was job-related and certain other requirements are satisfied.

- *Rental Property.* If part of your home is rented out, the rent you receive must be reported as income for income tax purposes. However, you can deduct from the rent the cost of any repairs as well as operating expenses (such as the cost of utilities, insurance and advertising for tenants), as well as an annual depreciation allowance. If your deductions are greater than your rental income, you can report a loss (subject to limitations), which will lower your taxable income.

- *Capital Gains Deferment.* Generally, when you sell something for more than you paid for it, you must pay a “capital gains” tax on the increase. Again, homeowners receive preferential treatment. Provided you have lived in your home for at least 3 of the previous 5 years, the IRS allows you to exempt an amount of the gains in your home from capital gains’ taxes. You should check the tax regulations to determine the amount of capital gains that can be earned tax/free.

H. REFINANCING

Refinancing is the process of obtaining a new loan to pay the current mortgage balance. Refinancing involves many of

the same steps that first-time homeownership involves, and like first-time homeownership, involves risks as well. Some of the reasons people choose to refinance their homes are to obtain a lower interest rate, to shorten their loan term, or to take cash out for major repairs or purchases.

Risks involved with refinancing include refinancing in times of financial stress to pay off other debt, such as "unsecured" credit card debt, or refinancing with a lender that does not seek to provide homeowners with the best deal possible. As with first-time homebuyers, homeowners must be aware of predatory lenders who may target them for refinancing. In particular, predatory lenders target homeowners with equity in their homes but who need cash for home improvements or debts.

As a homeowner, one of your first priorities is to protect the investment you have made in your home. Refinancing can be very beneficial, but you must be consciously aware of the signs of predatory lending and look for immediate assistance to verify that the information provided by a lender is right for you. A local non-profit agency with a Collaborative Seal of Approval can help you in this matter.

TIP: Review signs of predatory and sub prime loans. Discuss what to look

Deciding to Refinance

If you decide to refinance, there are many possibilities to consider. In most cases, the qualifications and underwriting criteria for purchasing a home for the first time are very flexible compared to the ones used for refinancing. The underwriting criteria depend primarily on the amount of equity in the house and your financial ability to repay the loan. Overall, the process is similar to applying for a mortgage loan the first time, and generally involves some of the same expenses.

People generally decide to refinance for one of two reasons: to get a better interest rate or term, or if they need cash for home improvements or other related expense. If you decide to refinance because you need cash, there are two options to consider: 1) refinance your entire loan to take out cash equity, or 2) leave your first loan intact and take out a home equity loan (usually a second mortgage).

Some factors to consider when deciding to refinance:

- *Lower Interest Rate.* A good rule-of-thumb is that the rate should be at least one percentage point lower for refinancing to be worth your while.

- *Lower Term.* When interest rates are very low, you may be interested in decreasing the term of the mortgage (e.g., from 30 to 15 years). Even when the rate is the same, it may be worthwhile to refinance to decrease the term, as long as you remember that your monthly payments will be increasing with a shorter-term loan (although you will save money over the life of the loan). This option is advisable if you plan on keeping the property, you have sufficient savings (preferably 3-6 months) and you can afford the increase. Also be mindful that if there is a co-borrower on the refinance, that the proposed mortgage is still affordable with one income.

- *From ARM to Fixed or from ARM to a better ARM.* Many people acquire an Adjustable Rate Mortgage (ARM) when they buy a home, with the idea of refinancing in the future into a fixed rate mortgage. If you currently have an ARM, you may want to consider converting it to a fixed-rate mortgage. You may also be able to go to a lower rate ARM than the one you currently have. Know the pros and cons of an ARM as this option can offers less long-term stability.

- *Home Equity Loans.* Another common reason people decide to refinance is in order to take out a home equity loan. This allows homeowners to cash out some of the equity that they have accrued for major purchases or improvements. Equity is the amount of ownership that has been built up by the holder of the mortgage through principal payments and/or appreciation. Until the mortgage has been fully repaid, the buyer simply builds up equity in the home. A home equity loan borrows against that built-up equity.

There are two main types of home equity loans:

- A second mortgage, which lends out a lump sum of money that must be repaid over a fixed period.
- A home equity line of credit, which provides the borrower with a checkbook or a credit card that is used to borrow funds against the home equity.

Regardless of which kind of home equity loan you decide is right for you, it’s important to remember that both are loans and need to be paid back.

Poor Reasons to Refinance

Some borrowers seek to refinance and take out a home equity loan at times of great financial need to pay off debts. If you find yourself in financial difficulty, it is best to seek the advice of a credit or debt counselor from a HUD-approved agency, or your homebuyer counselor, BEFORE deciding whether to refinance your home to pay off your debts. Consumer Credit Counseling Services of Southern New England has 16 locations throughout Massachusetts. The toll-free phone number is 800-208-2227.

The following are two reasons NOT to refinance:

- *Refinancing Secured Debt to Repay Unsecured Debt.* Most debts are “unsecured debts,” such as hospital and doctors’ bills, utility debt, and most credit card debt. This means they are not secured by an asset. Unsecured debtors rarely can do anything to seriously harm you if you don’t pay. However, your mortgage on your home is considered “secured debt," and failure to make payments can result in the loss of your home. By refinancing and taking out a home equity loan to pay off unsecured debt, you face the loss of your home if you continue to have financial problems.

- *Taking out a Second Mortgage to Pay Off your Car Loan.* If you are in danger of losing your car because you cannot make your payments, you may be tempted to pay off your loan by taking out a second mortgage on your home. However, by doing this, you are placing your home at risk if you continue to have financial problems.

The Costs of Refinancing

Determining if it is in your best financial interest to refinance is very important. Note that there are costs associated with refinancing such as the origination fee, application fee and the appraisal. Moreover, some fees are non-refundable should you decide to forgo the refinance. Some lenders will advertise that they offer no closing costs; however this is misleading as the costs are rolled into the mortgage loan amount. It may be better to roll the closing costs into the refinance than to deplete your savings.

Title search and title insurance. The title search confirms your legal ownership of the house, and ensures there are no outstanding claims against the property. Title insurance guards the lender against a mistake and is almost always required. Be sure to ask the company carrying the present title insurance policy if it can re-issue your policy at a re-issue rate. A re-issue could save you up to 70 percent compared to a new policy. Your current lender can tell you who holds your title insurance policy.

Application fee. This covers the lender's initial costs to process your application and obtain your credit report.

Appraisal fee. This fee covers the costs of an independent appraisal of the value of your home for your lender's use in evaluating your application. A copy can be available at no cost at your request to the lender.

Loan underwriting fee. This fee covers remaining costs associated with processing your mortgage application and completing your loan.

Points. Points are essentially prepaid finance charges, paid when you close on your mortgage loan, usually to obtain a mortgage with a lower interest rate. Usually, a lender will offer a number of mortgages with different combinations of interest rates and points; the higher the interest rate, the fewer the points charged at closing.

Closing attorney and review fees. Usually the lender will charge you fees for the services of the closing attorney, the person who conducts the closing. You may also be charged for other legal services involved in completing your loan.

Other costs. Depending on your mortgage, you could face fees for a VA loan guarantee, FHA or private mortgage insurance, and a variety of other possible closing costs. Make sure to consult your mortgage lender about these possible fees prior to signing your application.

I. AVOIDING FORECLOSURE

Your mortgage payment is the most important monthly obligation you have. Not paying your mortgage may result in the loss of your home. Many homeowners face one or more financial crises during the course of their ownership. It is crucial that you seek help as soon as you need it.

A copy of the following Consumer Checklist is also available as a handout. Counselors should cover the bold text in the Checklist at a minimum, and give participants a copy of the Consumer Checklist, with instructions to file it with their other important documents in case they face financial difficulties in the future. A more detailed explanation of foreclosure avoidance tools can be found in the Chapter on foreclosure prevention.

Consumer Checklist for Avoiding Foreclosure

You may not be struggling financially right now, but we all face challenges in life. Knowing how to navigate these challenges can make the difference between sustaining or losing your home in the future. Be proactive early by contacting you lender and notifying them of your situation. Regardless of what you may hear, it is never a good idea to simply stop paying your mortgage.

The best way to avoid foreclosure is to make your mortgage the first bill you pay each month. However, that is not always possible. The following list provides general suggestions and ideas as to how you can prepare for and work through tough times.

Before Trouble Starts

⇒ Start a file, in a safe place, for records relating to your home
- Purchase and Sale Agreement
- Mortgage application
- Closing documents
- Property tax bills
- Property insurance information
- Letters you receive from <u>and</u> copies of letters you mail to your lender

⇒ Use checks or money orders to pay bills
- Do not send cash
- Do not use credit cards
- Keep a record of all payments (date paid and check number)
- Confirm you payment was received and correctly applied

⇒ Pay high priority bills first
- Food
- Mortgage
- Utilities (heat, hot water, electricity, gas)
- Do <u>not</u> pay credit cards or other unsecured debts <u>before</u> the mortgage

When Things Start to Feel Tight

⇒ Where is the Money Going?

- Create a budget that shows your current income and expenses
- Review every item on your budget
- Prepare a revised, realistic budget that you can live with until your circumstances change

⇒ Increase Your Income
- Collect federal and state benefits if you are eligible
- Claim the earned income tax credit if you are eligible
- Stop all voluntary deductions being taken out of your paycheck
- Churches and community agencies may have no-interest loans or grants to help you pay necessary expenses

⇒ Reduce Your Expenses
- Review every expense for potential savings – reduce or eliminate unnecessary expenses, cancel private mortgage insurance if possible
- Pay only for the type of phone service you need
- Cancel cable television service
- Identify ways to conserve energy
- Participate in a weatherization program
- Review your homeowner's and auto insurance policies and shop around
- Claim the owner-occupant property tax exemption and others for which you may be eligible
- Check tax abatement eligibility

⇒ Other Considerations
- Contact your mortgage servicer at the first sign of trouble
- Ask your utility company for budget billing so you can pay the same amount each month
- You may be eligible for state, federal or local utility assistance
- If you are behind on your utility bills, start an affordable repayment plan

After Falling Behind

⇒ Identify the Problem
- What caused your current situation (job loss, illness, divorce, decreased income)?
- How long do you expect your difficulty to last?
- What specific type of help do you need?
- How much can you afford to pay toward your mortgage after budgeting to maximize income and minimize expenses?

⇒ Communicate

- Speak with your lender's delinquent loan or loss mitigation specialist
- Explain your situation
- Ask for a mortgage workout package
- Keep a phone log that shows the date and time of your call, who you spoke to, the person's phone number and what was said
- Follow up your phone call with a letter and keep a copy for yourself
- Send all letters by certified mail and keep the receipt

⇒ Continue to pay your Mortgage as best you can

- Partial payments will be returned to you or the lender may put your payment to an "unapplied account"
- If the lender returns your payment, save the money and do not spend it on other bills; this will assist you in negotiations with the lender for a modification of your loan.

⇒ Know Your Options

- There are many ways the lender can help you if you fall behind on your mortgage. Which one you choose/need and what the lender allows will depend on your individual situation.

  Reinstatement: You pay all of the accrued interest, principle and negative escrow and any associated foreclosure expenses such as legal fees.

  Partial Reinstatement: You pay at least one-half of the back payments first and agree to a repayment plan for the rest of what you owe.

  Forbearance Agreement/Repayment Plan: The lender agrees to suspend or reduce your mortgage payment for a specific time period. This option allows you time to deal with a temporary situation; however, the lender will demand payment when the forbearance ends or a commitment to a repayment plan.

  Modification: The lender agrees to change one or more terms of the mortgage. Possible changes include: reducing or fixing the interest rate, extending the term of the mortgage and adding the arrears to the unpaid balance of your loan. You can use the money that was set aside to pay down some of the arrearage.

  Short Sale: The lender may let you sell the home even if you owe more than the property is worth and agree to accept the lesser amount as payment in full. You must have a buyer and a signed Purchase and Sale Agreement. Anyone else who has a lien on the property, and the private mortgage insurer, if there is one, must also agree to the short sale. It is very important to work with a realtor experienced in short-sales.

Sell the Property: You sell the home and the money from the sale pays off the mortgage and any other liens on the property. This type of sale does not require the lender's approval.

Deed-In-Lieu: You cannot afford to keep the home and you give the house back to the lender. Do not ask for a deed-in-lieu when you have equity in the property or when a short sale is possible. The lender will not accept a deed-in-lieu if there are other liens on the property. Also note the lender will require that the property is put on the market for sale for 120 days prior to considering a deed-in-lieu.

- **Ask the lender who owns your loan, and seek the owner's help if the lender will not serve you.**

⇒ **Documentation for a Workout (may vary from lender to lender)**
- Signed and dated letter that <u>briefly</u> explains what happened
- Documentation of your hardship (doctor's letters, etc.)
- One month worth of pay stubs or other proof of income
- Two most recent signed federal tax returns and W2s (three years and a current profit and loss statement if self-employed)
- An accurate budget showing all of your monthly income and expenses
- A list of your assets (cars, bank accounts, etc.)
- A list of your liabilities (mortgages, loans, liens, other outstanding debts)
- This package must be complete before the lender will review it
- Keep copies for your file

Other Things to Know

⇒ **Talk to a lawyer or counselor experienced in "default and delinquency counseling"**
- If you cannot reach a solution with your lender
- If you disagree with the amount the lender says you owe
- If you wish to consider filing bankruptcy

⇒ **Foreclosure moves very quickly**
- Learn about the foreclosure process so that you understand your rights and the time constraints
- Keep track of deadlines

- Do not wait until the last minute to get help

⇒ **Foreclosures are public**
- Foreclosure notices appear in newspapers and court records
- Some people may try to take advantage of you by offering a "quick fix;" do not fall for offers of refinancing your property; if it is in foreclosure, you will not be considered creditworthy and anyone that promises otherwise is trying to scam you.
- Carefully review offers to consolidate your credit card debts within a new mortgage as this may only make matters worse
- Do not agree to sell your home to someone who claims they will lease it back to you
- Talk to a lawyer or counselor before you sign anything

⇒ **Where to go for help**
- **Your local Collaborative-approved non-profit housing organization**
- **Your mortgage lender or the owner or your mortgage**
- **The U.S. Department of Housing and Urban Development (HUD)**

TIP:
Invite as a guest speaker who has gone through the foreclosure process,
or a counselor from a non-profit agency who provides default and
delinquency counseling.