

# Foreclosure Prevention

## What is Foreclosure?

Foreclosure is a legal process by which a bank, mortgage company or other creditor takes a homeowner's property in order to satisfy a debt. The foreclosure is the result of non-payment of the mortgage (including second mortgages and home equity loans); however, people also lose their homes due to unpaid property taxes. As a result of the foreclosure, the homeowner loses the rights he or she had to the property.

## Avoiding Foreclosure

Are you anticipating a change to your mortgage that will be too expensive for you? Do not ignore the situation, act now. THDA has provided training to many organizations across Tennessee that will provide free and confidential counseling about your options. Please do not delay.

Start with the company that made the mortgage with you. Mortgage lenders can offer services to persons who are facing unaffordable payments. More options are available. Contact one of the certified counselors for more information.

## Information is Your Key

- Locate and read your mortgage documents. Confirm your payment requirements.
- Read all the documents to confirm your payment requirements. The details of your mortgage payment are found on the Note. If you don't understand, talk to your servicer (the company to which you send your mortgage payment) or a certified counselor.
- Be aware some loans are "fixed" only for a short time. Adjustable rate mortgages have a low initial interest rate that may be fixed for only two or three years. It can then change as described in the promissory note you signed at the closing of your loan. Can you afford the new payment?
- Monthly payments for fixed and adjustable mortgage can also change because of changes in local property taxes and in insurance rates. Part of each monthly payment is set aside in an escrow account to pay property taxes and insurance.

## Identify your Contacts

- Your original lender may have sold your mortgage to a servicer. The servicer is the company that collects the monthly payment. See the payment book for contact information.
- Contact Consumer Resources of the Tennessee Department of Financial Institutions if you need to file a complaint about a financial institution.

## Assess your Options

- Communicate with your servicer as soon as you anticipate a problem. More options are available before a payment is missed.

- It is not in the best interest of the servicer to foreclose on your property. They want to help you stay in your home.
- If you are having problems making your payments, call or write to your servicer's loss mitigation department immediately. Ignoring payments causes penalties and late fees to be added. Explain your situation. Be prepared to provide financial information, such as your monthly income and expenses.
- Each lender and servicer has its own policies for loss mitigation. Lenders and servicers generally lose money in foreclosure proceedings. They prefer to work out a plan with the homeowner. It's better to start conversations with your servicer before you miss a payment.
- Keep a record of your calls: the date, with whom you spoke, your questions and answers.
- Stay in your home for now. You may not qualify for assistance if you abandon your property.
- Contact a certified counselor. These agencies are valuable resources. They have information on services and programs offered by government agencies and private and community organizations that might be able to help you. These services are free of charge.
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- Prioritize your spending based on need. You must have shelter, food, medical coverage and utilities. Look for bills that can be reduced or eliminated such as the cable bill, cell phones, dining out, entertainment, a second car or boat. A certified non-profit credit counselor will, for no charge, help you determine a budget.
- Never give an agency a large up-front fee or donation, or join an organization with a membership fee. There are reputable, free counseling agencies in place.
- Is there a family member who can offer an interest-free loan or gift?
- Refinancing may have been your plan initially. Have you built up enough equity to cover closing costs?
- Has the house increased in value? Can you sell it to cover your investment?
- Can you or another family member take on another job to catch up on bills?
- For consumer debt advice visit the National Foundation for Credit Counseling.
- For a free look at your credit reports, go to: [Experian.com](https://www.experian.com); [Equifax.com](https://www.equifax.com); or [Transunion.com](https://www.transunion.com)

## **Improve your Credit**

- Pay at least the minimum payment on credit cards each month on time.
- Keep only a minimum number of cards.