

Alternatives to Foreclosure

Are you worried about foreclosure? There are alternatives. Repayment plans or restructured terms may help you keep your home.

Homeowners who've experienced financial hardship may have a hard road between the first late payment and the loss of their home through foreclosure. Along that road, though, are some alternatives that may help homeowners avoid foreclosure and even continue to own and occupy their home.

Two of those alternatives are forbearance and loan modification, both of which may be available to homeowners who have some financial means and are in a position to negotiate and cooperate with the lender to work out an agreement to help them keep their home.

New repayment plan can forestay foreclosure

Forbearance is a short-term solution in which the lender agrees to delay collection of the debt while the homeowner attempts to make up one or more delinquent payments over time. Homeowners who don't have any income or other means to make up late payments typically aren't candidates for forbearance.

Suppose a homeowner has missed three \$1,000 monthly mortgage payments due to a temporary illness or unemployment. The homeowner can't afford to pay \$4,000 immediately, but could pay, say, \$1,300 each month until the delinquent amount was paid off.

Forbearance can be advantageous for both the homeowner, who gets to keep the home, and the lender, by avoiding the costs of foreclosure and continue to collect payments on the mortgage.

New loan terms can help homeowners make payments

A more complicated and usually longer-term solution than forbearance is loan modification, in which the lender agrees to restructure the original terms of the mortgage.

An example of loan modification is the extension of the loan term, say from 30 to 40 years. For example, a homeowner who can't afford the current payments on a 30 year term may be able to pay off the debt with the lower payments that come by extending the loan over a longer period of time. Alternatively, the lender may offer the homeowner an opportunity to restructure or refinance the debt, perhaps with a different type of mortgage or at a lower interest rate. Refinancing with the same lender may be less expensive for the homeowner than a new loan with a different lender would be.

Options depend on loan terms and homeowner's situation

Lenders typically are less inclined to proceed with foreclosures in a weak housing market since foreclosure is costly and lenders don't want to own homes that may decline in value or be difficult to sell. On the other hand, lenders typically are more inclined to press forward with foreclosures if they can sell those homes in a strong market and recoup the unpaid debt and perhaps a portion of the foreclosure costs as well.

Either way, the lender's decision will depend on whether the loan has been sold as an investment in a package of securitized mortgages, the original terms of the loan, the presence or absence of mortgage insurance, and the homeowner's personal situation. The lender's ability to avoid the costs of foreclosure can be a good bargaining chip for those homeowners who are in a financially strong enough position to negotiate one of the alternatives detailed above.