

BBBTips™ for Troubled Homeowners

The headlines are discouraging. Rising mortgage interest rates are taking a toll on many homeowners, just as the market value of their home is flattening or declining. Mortgage delinquency rates are up and home foreclosures are at a record high in many parts of the country.

There's a wide spectrum of affected homeowners. A big group of people who opted for adjustable rate mortgages (ARMs) when the real estate market was booming three years ago are approaching an interest rate "reset" point; their financial challenges are looming. At the other end, homeowners with sub prime loans or nontraditional loans, such as interest-only mortgages or "piggyback" loans, may already be at the point of foreclosure.

In-between are the homeowners whose mortgage rates have already been "reset" and they are feeling the strain financially. They may be juggling their budgets or ignoring other debt obligations to make the bigger monthly mortgage payment. Some homeowners are contemplating selling their homes, but they owe more money than their home is worth, or there's a glut of houses on the market. Many people would prefer to refinance to a fixed-rate mortgage, but lack sufficient equity or face burdensome prepayment penalties.

What Happened?

The threat of foreclosure used to arise in the wake of major life changes, like unemployment, a serious illness, divorce or the death of a family member. That is no longer the case. In the past couple of years, millions of troubled homeowners are facing financial difficulties because of how their mortgage is structured.

Some borrowers did not understand the risks of a mortgage tied to fluctuating interest rates. Others borrowed more than they could afford, counting on real estate values to continue to soar. Many homeowners, particularly those in low-income areas, are confronting the challenge of "sub-prime" mortgages, the repercussions of which were not adequately explained to them. There are homeowners who mistakenly assumed that future salary increases would align with interest rate "resets." Some people simply did not anticipate a sufficient cash cushion to cover them when their adjustable rates rose. Very few people anticipated having to make higher mortgage payments just as gas prices were rising and their minimum credit card payments were increasing.

If You Can't Make Your Monthly Mortgage Payment

If your monthly mortgage payment is a financial burden or if you anticipate falling behind on your payments when your rate increases, know that you are not alone. Others - at all income levels -- are facing the same predicament. How your particular situation resolves itself will depend on you taking the time to review your mortgage, today, and, if need be, contacting your lender at the first sign of trouble.

There are steps you can take that will improve your chances of keeping ownership of your home. If you are a troubled homeowner, the Better Business Bureau offers the following checklist to help you determine a plan of action.

1. **Carefully review the terms of your mortgage.** If you have a sub-prime, nontraditional or adjustable rate mortgage you should review all of your loan documentation today. Don't wait to find out that your monthly payment will double because of a pending rate increase. When are the "reset" points? Will you be able to make the new monthly payment with a higher interest rate? Would you face a prepayment penalty or other restrictions should you qualify to refinance? How much equity do you have in your home?
2. **Can you rework your budget?** It may be possible to make adjustments to your budget that will free up more money for mortgage payments. Reducing your spending or taking on a second job may help. Perhaps you can sell the extra car, forego private school tuition, take in a roommate, or make other lifestyle changes to bring in more money.
3. **If you don't hear from your lender, contact them.** Keep in mind that your lender would prefer to avoid foreclosure as much as you would. Over the past year, the industry has begun to offer more assistance to troubled homeowners. More lenders are taking the initiative to forestall financial difficulties for adjustable rate mortgage holders. They are sending letters alerting homeowners to a pending "reset" and outlining refinance options. If you ignore phone calls or letters or other communications from your mortgage lender, you are adding to your troubles.

If your lender hasn't contacted you, and you have already missed a mortgage payment or anticipate not being able to make the next payment, you need to contact your lender. Be aware that lenders are more likely to move quickly into foreclosure proceedings when they have not heard from the homeowner regarding their situation. Take the initiative and contact your lender.

4. **Speak to the right person.** Most mortgage statements contain a phone number specifically for use by homeowners who need to discuss difficulty making their monthly payment. This may be listed as the Loss Mitigation or the Collection Department. Staff members within these departments can advise borrowers of the options or "workouts" available to someone in their situation. If you cannot find a reference to such a department on your mortgage statement, contact the main customer service number and ask to speak to someone in loss mitigation.
5. **Discuss your situation honestly.** Your mortgage lender will probably have a specialist ask some questions designed to help identify workout options that are available to you as the borrower. To accomplish this successfully, homeowners should have at hand their bills, statements, and anything else that will help give an accurate portrayal of their financial situation.

Don't try to fudge on the true details of your situation. Don't be vague and don't make false promises. Honesty and openness is the key to making this work for

all involved parties. It is important that you accurately explain your current situation. Don't describe it as better (or worse!) than what it truly is. Being honest and open with your mortgage lender will help them to identify the most appropriate workout recommendations.

6. **Consider your options.** It is key to remember that there are always options available to assist you, no matter how serious your situation. Your lender will either pinpoint ways to help you keep your home (retention) or identify options that will involve the sale or loss of your property (liquidation).

One example of "retention" is forbearance. That is a temporary reprieve from the full monthly payment in order to help the homeowner resolve financial issues and resume normal payments. An example of a "liquidation" option is a short sale. This allows the homeowner to settle with the lender in situations where the home can only be sold for less than the balance owed on the mortgage.

There are also special programs available for homeowners who have VA or FHA insured mortgages. Lenders should be able to help the homeowner identify workout options available for these types of mortgages.

Seek Assistance from a Housing Counselor

If you take the above steps and are not able to reach a satisfactory conclusion, don't give up. There are places to go for help if your financial situation has become too much for you to manage, if you are too confused by the available options or if you believe your lender is being too difficult to work with.

Find a non-profit credit counseling agency that offers housing counseling, at no cost. Make sure the housing counselor is certified. A knowledgeable counselor will discuss your available options and help guide you through a stressful process. They can assist in reaching a solution with your current mortgage lender, refinancing with another lender or putting your property up for sale.

For help in finding a trustworthy credit counseling agency, contact the Better Business Bureau (www.bbb.org). Check the agency's record with the BBB, and find out if it is a member of the National Foundation for Credit Counseling (www.nfcc.org) or the Association of Independent Consumer Credit Counseling Agencies (www.aiccca.org). Agencies that are members of these organizations must adhere to strict standards of professionalism and accreditation and use only certified credit counselors.

Avoid Foreclosure "Rescue" Scams

Remember that your ultimate goal is to avoid foreclosure. Foreclosure is very damaging to a person's credit record and can be one of the most stressful experiences anyone can face. By taking positive action, early on, you can avoid foreclosure, whether you want to keep your house or move on.

Taking action, however, does not mean succumbing to foreclosure rackets. Scam artists know which communities are experiencing high rates of foreclosures. They go on the offensive to bombard at-risk homeowners with "rescue" offers. They send letters, tack notices on telephone poles, put flyers in mailboxes and use in-home visits to try to persuade homeowners that they will "save" their home by paying off the amount that is overdue on the loan.

Trusting homeowners can end up being talked into moving out and deeding the property over to a third party. He or she is told they can choose to rent the property with the option to buy it back later. Unfortunately, the rent payment on the home is often higher than the homeowner can afford. Often times, the original homeowner cannot make the rent and is evicted from their home. Or, if the homeowner expresses a desire to buy back the property, the scam operator usually sets the price of the home higher than the homeowner can afford.

The consequences of doing business with a foreclosure racket can be heart-breaking. Some homeowners lose their equity and their homes. In some cases the initial mortgage has not been paid off and the deed was never transferred, as promised. As a result, the homeowner faces eviction from the home and still owes for the original loan amount.

To avoid these types of problems, consider these tips.

- Before agreeing to any deal with a business or firm to buy your home, always contact your BBB (www.bbb.org) to find out if the company is trustworthy and check with your state Attorney General and state Real Estate Commission.
- Read everything before you sign and get all "promises" in writing. Some schemers will offer to complete paperwork for you, or ask you to sign a stack of documents, supposedly to secure a new mortgage. Victims later learn that they signed a quit-claim deed to their home.
- Beware if a foreclosure "rescue" company or mortgage "broker" instructs you not to contact your mortgage company or your attorney. Your mortgage company is the very business that you should be in touch with! Furthermore, why would you agree to cease contact with your attorney?
- You should never sign a contract under pressure and never sign away ownership of your property. Remember, signing over your deed to someone else does not necessarily relieve you of your obligation on your loan. Ask a trusted family member, your attorney or a financial professional to review any paperwork you are asked to sign.

Your Ultimate Goal: Protect Your Investment

A home is more than a roof over your head or a cozy shelter for your family. Your home is likely to be the single largest purchase you make in your lifetime. It is also a sizeable

investment that, if managed properly, can add to your financial stability and success. Do all that you can to protect this investment for yourself and your family!

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