



The current U.S. housing market and financial crisis have caused tremendous stress and heartache for families across America. During times like these, there are always a certain percentage of homes or homeowners who are distressed. According to the Mortgage Bankers Association®, as many as 1 out of 10 homes are either delinquent or in foreclosure, and unfortunately, 7 out of 10 homeowners in foreclosure proceed without the assistance or advice of real estate professionals or mortgage representatives. If you or someone you know is among the millions of people affected by the prospect of foreclosure, understand that you have options.

Be sure to talk to a professional to find the best option for your specific situation.

Options For Homeowners to Avoid Foreclosure...

- **Reinstatement**
To reinstate a mortgage, the homeowner has to pay all the missed payments, late fees and legal fees that are due up to the date that the loan is reinstated.
- **Sell the Property**
If sellers have equity in their property, they can sell it and prevent a foreclosure.
- **Deed-in-lieu of Foreclosure**
A deed-in-lieu of foreclosure is sometimes referred to as a friendly foreclosure because the homeowner essentially gives the deed back to the bank.
- **Short Sale**
When homeowners owe more on a property than it is currently worth and one of the previous solutions does not apply to their situation, there is the option of pursuing a short sale (see reverse side for more information).
- **Forbearance or Repayment Plan**
The lender allows the buyer to pay the missed amount over a period of time or the lender places the missed payments on the end of the amortization of the loan.
- **Refinance**
If homeowners have sufficient equity and income and their credit has not been too badly damaged, they may be able to refinance.
- **Bankruptcy**
A bankruptcy may stop a foreclosure and allow homeowners to reorganize their debt and keep their property.
- **Rent the Property**
In some cases, homeowners facing foreclosure will have payments low enough to allow them to rent their property and keep up their mortgage payments.
- **Mortgage Modification**
A loan modification is very similar to a lower interest refinance where the lender lowers the interest rate on the existing loan to lower the payments.
- **Servicemembers Civil Relief Act (SCRA)**
This law provides certain protection to military personnel who are in foreclosure in specific situations.
- **Short-refi**
This process involves the refinance of a home with a reduction in the principal balance and often the interest rate as well.

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The Basic Foreclosure Process...

1. **Default**—homeowners must miss a payment or default on payment for the property to enter the foreclosure process.
2. **Legal Notice**—the lender of the foreclosing property must notify homeowners that they are entering into the foreclosure process.
3. **Bank Sale or Auction Date**—homeowners are informed that they have a bank sale or auction date at which point the foreclosing mortgage company will gain control of the property.
4. **Redemption Period**—the period of time in which homeowners may present payment to the bank and regain possession of their property. (Not all states have a redemption period.)

For more information, contact your real estate agent or mortgage representative.

Short Sales

What You Need to Know...

In the past, it was rare that a bank or lender would accept a short sale. However, due to the overwhelming market changes, lenders have become much more negotiable when it comes to these transactions. Recent policy changes within many organizations have made the chances of getting a short sale approved even higher.

The following information describes the short sale process:

- Homeowners are “short” when they owe an amount on their property that is higher than the current market value.
- A short sale occurs when a negotiation is entered into with the homeowner’s mortgage company to accept less than the full balance of the loan at closing. A buyer closes on the property, and the property is “sold short.”



Foreclosure vs. Short Sale

Homeowner Consequences...

Issue	Foreclosure	Successful Short Sale
Future Fannie Mae Loan Primary Residence (Effective May 21, 2008)	A homeowner who loses a home to foreclosure is ineligible for a Fannie Mae backed mortgage for a period of 5 years.	A homeowner who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed mortgage after only 2 years.
Future Fannie Mae Loan Non Primary (Effective May 21, 2008)	An investor who allows a property to go to foreclosure is ineligible for a Fannie Mae backed investment mortgage for a period of 7 years.	An investor who successfully negotiates and closes a short sale will be eligible for a Fannie Mae backed investment mortgage after only 2 years.
Future Loan with any Mortgage Company	On any future 1003 application, a prospective borrower will have to answer YES to question C in Section VIII of the standard 1003 that asks, “Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?” This will affect future rates.	There is no similar declaration or question regarding a short sale.
Credit Score	Score may be lowered anywhere from 250 to more than 300 points. Typically, this will affect a score for more than 3 years.	Only late payments on a mortgage will show and an after sale mortgage will be reported as paid or negotiated. This will lower the score as little as 50 points if all other payments are being made. A short sale’s effect can be as brief as 12 to 18 months.
Credit History	Foreclosure will remain as a public record on a person’s credit history for at least 10 years.	A short sale is not reported on credit history. There is no specific reporting item for a “short sale.” The loan is typically reported “paid in full, settled.”
Security Clearances	Foreclosure is the most challenging issue against a security clearance outside of a conviction of a serious misdemeanor or felony. If a client has a foreclosure and is a police officer, in the military, in the CIA or any other position that requires a security clearance, the clearance will be revoked and the position will be terminated.	A short sale on its own does not challenge most security clearances.