



TIPS TO AVOID FORECLOSURE

How should I avoid mortgage trouble?

- **Prioritize your expenses.** Prioritize your bills and pay the ones that are most necessary for the well-being of you and your family, such as shelter, food, and utilities.
- **Protect your credit score.** When you are experiencing a financial challenge, remember that making late payments or skipping them can seriously affect your credit score.
- **Beware of scams.** Beware of predatory lenders, pre-approved loan offers and phony counseling agencies. Homeowners facing financial troubles are especially vulnerable because they are desperate to find a solution to their problems. Legitimate counseling agencies will offer their programs for free or for a small administrative charge. Check with a lawyer or your mortgage company before signing anything involving your home. Do not sign anything you do not understand. The U.S. Department of Housing and Urban Development has more information about avoiding predatory lending on their website, www.hud.gov.

What should I do if I miss a mortgage payment?

- **Call for help—it's the most important thing you can do.** More than half of homeowners facing foreclosure did not call for help when they fell behind in their mortgage payments.
- **Don't make a bad situation worse.** Ignoring your situation won't make it go away. Take the steps provided in this sheet to protect your home, your family and your credit rating.
- **Notify the bank as soon as you know your payment will be late.** Calling when you are 30 or 60 days late is better than calling when you are 120 days late. You still have some options. You must put your pride on hold if you're truly serious about stopping the foreclosure process. Remember that foreclosure is not in the best interest of lenders—lenders report that it costs up to \$50,000 or almost half the loan balance each time they write off a foreclosure.
- **Work it out.** Depending on the situation, the lender may lower the interest rate, lower the borrower's monthly payment, or enter into a repayment agreement for missed payments.
- **Avoid foreclosure rescue scams by calling a reputable nonprofit organization.** HOPE for Homeowners, (888) 995-HOPE, is an independent, third-party resource that is part of a **HUD-certified, not-for-profit network** dedicated to helping homeowners. HOPE counselors are trained to set up a plan of action designed just for you and your situation. (Spanish speaking counselors are also available; llame español.) When you call HOPE for Homeowners, you won't be judged, you won't pay a dime, and most of all, you won't be disappointed.

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What are my options if I cannot make payments?

- **Forbearance**—You are allowed to delay payments for a short period, with the understanding that another option will be used afterwards to bring the account current.
- **Reinstatement**—When you are behind in your payments but can promise a lump sum to bring payments current by a specific date.
- **A Repayment Plan**—If your account is past due, but you can now make payments, the lender may agree to let you catch up by adding a portion of the past due amount to each current monthly payment until your account is current.
- **Modifying Your Mortgage**—The lender can modify your mortgage to extend the length of your loan (or take other steps to reduce your payments). One solution is to add the past due amount into your existing loan, financing it over a long term.
- **Selling Your Home**—If catching up on payments is not possible, the lender might agree to put foreclosure on hold to give you some time to attempt to sell your home.
- **Property Give-Back**—The lender can allow you to give-back your property—and then forgive the debt. Give-backs do, however, have a negative impact on your credit record, although not as much as a foreclosure. The lender might require that you attempt to sell the house for a specific time period before agreeing to this option, and it might not be possible if there are other liens against the home.

How can I reduce the risk of foreclosure when I purchase or refinance my home?

- **Take advantage of pre-Purchase counseling offered by not-for-profit organizations.** Homeowners can avoid trouble later on by making informed decisions while purchasing their homes. Borrowers who are most likely to keep their homes understand their mortgage options and how much they can really afford. Education also helps borrowers identify and avoid unscrupulous sellers or lenders. A recent study found that borrowers who received counseling have half the default risk as those who did not.
- **Avoid prepayment penalties and balloon payments.** People who refinance their mortgages with loans containing prepayment penalties or balloon payments are more likely to undergo foreclosure, according to a study by researchers at the University of North Carolina. According to the study, a prepayment penalty increases foreclosure risk by about 20 percent. Mortgages with balloon payments were 46 percent more likely to go to foreclosure than loans without. Protect the equity in your home – it's a valuable source of wealth that will build over time.
- **Stay on top of home repairs and maintenance.** NeighborWorks® organizations provide counseling in home maintenance and repairs and rehabs that improve the value of a home. Too often emergency repairs and less-than-trustworthy contractors push a homeowner into foreclosure.

[INSERT LOCAL ORGANIZATION CONTACT INFORMATION]



FORECLOSURE STATISTICS

Homeowners Facing Foreclosure

- 1 out of every 200 homes will be foreclosed upon. For a city like Washington, D.C., that translates to 3,000 Washingtonians losing their homes to foreclosure each year.
 - Mortgage Bankers Association
- Every three months, 250,000 new families enter into foreclosure.
 - Mortgage Bankers Association
- One child in every classroom in America is at risk of losing his/her home because their parents are unable to pay their mortgage.
 - Based on information from the Mortgage Bankers Association
- A slower real estate market can translate into falling prices and home values. As a result, homeowners who opted for adjustable rate mortgages may now find that as their mortgage rate adjusts higher, their home value is lower and therefore refinancing is no longer an option.
- Six in 10 homeowners wish they understood the terms and details of their mortgage better.
 - Freddie Mac/Roper poll of 2,031 U.S. homeowners, conducted 2005.
- More than 6 in 10 homeowners delinquent in their mortgage payments are not aware of services that mortgage lenders can offer to individuals having trouble with their mortgage.
 - Freddie Mac/Roper poll of 2,031 U.S. homeowners, conducted 2005.

The Financial and Emotional State of Homeowners Facing Foreclosure

- Homeowners fail to contact their lender because they are embarrassed, don't believe the lender can help, and/or believe it would cause them to lose their home more quickly.
 - Freddie Mac/Roper poll of 2,031 U.S. homeowners, conducted 2005.
- If home foreclosure were likely for you, what best describes how you would feel?
 - 38% Scared
 - 35% Depressed
 - 9% Angry
 - 8% Embarrassed
 - 9% None of these
 - Harris Interactive poll of 1,334 U.S. homeowners, conducted October 5-7, 2005.
- Many homeowners already are at the financial edge:
 - 43% of American households spend more than they earn each year.
 - Homeownership Preservation Foundation data of 60,000 homeowners
 - 52% of employees live paycheck to paycheck.
 - The MetLife Study of Employee Benefit Trends: Findings from the 2003 National Survey of Employers and Employees, November 2003.
 - Nearly 42% of all American households do not have enough in liquid financial assets to support themselves for at least three months.
 - 46% of American households have less than \$5,000 in liquid assets, including IRAs.
 - Asena Caner and Edward N. Wolff, "Asset Poverty in the United States: Its Persistence in an Expansionary Economy," Levy Economics Institute of Bard College, 2004.



- Tipping points that put homeowners over the edge:
 - 32% experience a job loss
 - 25% experience a health crisis
 - 85% have already missed one mortgage payment
 - 50% have already missed two payments
 - Most have no savings, no available credit, and their extended families have limited resources.
 - Most have first-time loans, and most loans are less than three years old.
 - They may have already refinanced two or three times.
 - Homeownership Preservation Foundation data of 60,000 homeowners

Lenders and Foreclosure

- Lenders and investors do not make money on foreclosures. Losses range from 20 cents to 60 cents on the dollar. Lenders typically lose \$50,000 or more on one foreclosure.
 - Craig Focardi, CMB, Research Director, TowerGroup's consumer lending division, cited by Dona Dezube, "Heroic Homeownership," Mortgage Banking, (June 2006) p. 82.
- Low- and moderate-income borrowers who enter a repayment plan are 68% less likely to lose their homes.
 - Dona Dezube, "Heroic Homeownership," Mortgage Banking, (June 2006) p. 82.

The Cost of Foreclosure for Cities and Communities

- Homes in foreclosure that become vacant provide sites for crime or other neighborhood problems. One foreclosure can impose up to \$34,000 in direct costs on local government agencies, including inspections, court actions, police and fire department efforts, potential demolition, unpaid water and sewage, and trash removal.
 - William C. Apgar, Mark Duda, and Rochelle Nawrocki Gorey, "The Municipal Cost of Foreclosures: A Chicago Case Study," February 27, 2005, p. 2.
- One foreclosure can result in as much as an additional \$220,000 in reduced property value and home equity for nearby homes.
 - William C. Apgar and Mark Duda, "Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom," May 11, 2005, p. 4.

Benefits of Homeownership

- Homeowners are more satisfied with their lives and are happier. Homeownership is positively associated with physical, mental and emotional health.
 - Robert D. Dietz, "The Social Consequences of Homeownership," June 18, 2003, p.2, 4
- Children of homeowners are likely to perform higher on academic achievement test and are more likely to finish high school. They also have fewer behavioral problems in school and are less likely to become pregnant as teenagers.
 - Robert D. Dietz, "The Social Consequences of Homeownership," June 18, 2003, p.2, 4
- Political activity (voting, civic participation) is higher among homeowners than renters. High level of neighborhood homeownership enhances property values.
 - Robert D. Dietz, "The Social Consequences of Homeownership," June 18, 2003, p.2, 4