"Foreclosure and some basic options"

You find yourself suddenly behind on your mortgage, and you wonder, “Does this mean I’m a bad person?” No, you’re not a bad person. You’re actually one of millions all around the USA who have fallen upon hard times, and have fallen behind in their mortgage payments. Do many of them fold the tent and give up? You betcha. Why? Because they lack specific knowledge. Knowledge that can mean the difference between keeping and losing their home, and the difference between damaging their credit and salvaging it. Let's summarize a few things that you need to know.

What is Loan to Value and What Does it Mean to You?

Calculation:

Loan to Value (or LTV) is simply a mathematical calculation. Value is defined as the market value of the collateral used to secure a loan. This is derived in several ways (from the price of similar homes in your area or via hiring an appraiser). The “loan” part is referred to as the amount owed on the property. For example, let’s say you owe $100,000 on your home.

Let’s say your home is worth $150,000. You would divide your loan due of $100,000 by the value of the property, in this case, $150,000, and you would come up with 66.6%.

What does this percentage mean to you?

Now that you know your LTV, you can have an informed conversation with a lender with whom you will be working. REMEMBER: The lower the LTV, the better, thus the more attractive to a prospective lender with whom you are trying to work with to secure a loan. Lenders will lend from 100% and lower. The less debt you have, the lower your LTV, thus, the better chance you have of being funded (Lowering your debt is a great way to improve your LTV and make you more attractive to foreclosure lenders). CAUTION: Before you throw in the towel because your LTV is too high, read on…there are other criteria with which you will be evaluated.

There are three major credit bureaus in the country who monitor and report most consumers’ pay history using a scoring system. When a lender checks your credit score, they “merge” the scores from the three credit bureaus and come up with what is known as the “middle score”. This is the mean, or average of the three scores, and is utilized in conjunction with your LTV, employment history and monthly income. Also, very important in this calculation is your debt to income ratio. This is calculated by dividing the borrower’s monthly payment obligations on long term debts by his or her gross monthly income.

OK, now to the foreclosure issue: At the beginning, the lending institution will send the homeowner a nice letter saying something like “ perhaps you forgot”, or something of the like. As months go by, the letters become a bit stronger in language until virtual war is declared. The lender begins to threaten that your home will be taken from you, your credit score will suffer, etc. Sometimes the homeowner will make attempts to pay and the lender may or may not accept payment.

There are a few possibilities for you to look into and investigate:

A) Refinancing Your Home: You may be able to get a loan that would satisfy your current loan, and replace it with a new one.

B) Second Mortgage or Equity Loan: Lenders do not like to add to a borrower’s woes by adding a second loan to their finances, but it may be a viable option. This works well for those who can prove that they are once again back on their financial feet.

C) General Reinstatement: Reinstatement of a loan simply means that the late payments, along with any late fees and/or attorney’s fees have been satisfied. You may also want to look into selling personal big ticket items you don’t ABSOLUTELY NEED.

D) Forbearance: You can “slow” or “stall” the foreclosure process with your bank if you clearly detail the reasons you were late in the first place, and SHOW A PLAN to meet the monthly payments through new employment, cash, or other means, and your timetable for same. This is always something you can try.

E) Out and Out Sale of Your Home: You also have the option of selling your home, preferably to a cash buyer (these transactions close FAST), or an investor. Make sure you receive enough to cover your outstanding balances, along with all fees due.

F) Contract for Deed: This is a complicated process, but in a nutshell, you could contact a buyer and “sell” your deed to them, making them responsible for making payments along with satisfying back payments. Again, consult an attorney(getting the picture with attorneys?) who is thoroughly knowledgeable in this procedure.

Remember, you are not a bad person, just one in need of solutions and knowledge. We advise you to consult an attorney before utilizing any of the practices listed above, as laws change every day. These ideas are freely available on the web, but we have summarized them here for you.

Regards,
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