Alternatives to Foreclosure

Prepared by NHS of Southwest Wisconsin

The following are the most common alternatives to a foreclosure. Each servicer has its own requirements for these alternatives. Some servicers may not offer all of these alternatives, and some servicers may not offer any. It is very important to contact your servicer immediately if you are struggling to make your mortgage payment in order to keep as many options as possible open to you.

Refinance: Creating a new loan with a new bank or the same bank as the original loan. This can be an appropriate option if it reduces the monthly payment enough to offset the cost of the refinance. A refinance requires that the current loan is not yet behind in payments, the homeowner has a very good credit history and can document income to show the new loan is affordable. In most, but not all cases, the property has to have a value greater than the loan amount.

Repayment Plan: Missed mortgage payments are caught up over time – an extra amount is paid along with the regular monthly mortgage payment until the delinquency is paid off. This is an appropriate option if the hardship was temporary and the income/budget can support extra payments.

Forbearance or Moratorium: The monthly mortgage payment is greatly reduced or paused for a specific period of time based on the hardship and current financial status. During this time, a "balance" of the portion of the payment not being made is accruing. At the end of the forbearance or moratorium period, the accrued balance must be addressed through a repayment plan or modification. This is an appropriate option if the hardship is known to be temporary, as it gives time for the hardship to end without entering into foreclosure status.

Modification: A way to change the terms of a loan without creating a new loan through a refinance. The servicer can lower the interest rate, extend the years of the loan, and forbear or forgive part of the principal of the loan in order the make the monthly payments more affordable. This is an appropriate option if there is a long-term or permanent hardship that impacts affordability and the current payment is determined to be unaffordable.

Partial Claim: If the loan has private mortgage insurance (PMI), the insurance company may lend you the money to bring the loan current. The company would take a second mortgage on the property, usually at low interest. Often, the payments on the second loan don't start until the hardship has ended. This is an appropriate option if the loan has PMI, the hardship has ended, and the homeowner is able to resume making the full monthly mortgage payments.

Pre-foreclosure (Short) Sale: Selling the home for less than what is owed on the mortgage. It can be a lengthy process; the servicer often requires that the property be advertised for sale for at least six months. The servicer approves the final selling price of the property. It can be helpful to work with a

Realtor who has experience with short sales. This is an appropriate option if the homeowner doesn't qualify for any other options or no longer wants to remain in the property, and the servicer will agree to accept less than what is owed on the mortgage without suing the homeowner for the money lost. Contact the servicer for specific instructions on how to arrange for a short sale agreement.

Deed-in-Lieu (DiL) of Foreclosure: An agreement in which the homeowner voluntarily transfers ownership (the Deed) of the property to the servicer to satisfy the mortgage and end foreclosure action. Many servicers require the homeowner to attempt a short sale before they will agree to a DiL. This is an appropriate option if the homeowner hasn't qualified for any other options or no longer wants to remain in the property and hasn't been able to sell the property in a short sale. The servicer should also agree to not sue the homeowner for any money lost.

Making Home Affordable (MHA): The MHA is a series of government-sponsored programs to help give homeowners mortgage relief and additional alternatives to foreclosure. Servicer participation in the MHA is optional, so these programs are not available from all servicers. Servicers that do participate are offered incentives for giving homeowners MHA-specific foreclosure alternatives, which helps motivate them to work with struggling homeowners. Each MHA program has its own eligibility requirements; not all mortgages or homeowners will quality for a MHA program. For more information on all the available MHA programs, visit HUD's Making Home Affordable website.
(link to http://www.makinghomeaffordable.gov/programs/view-all-programs/Pages/default.aspx)
Programs currently available through Making Home Affordable:

- Home Affordable Modification Program (HAMP)
- Principal Reduction Alternative SM (PRA)
- Second Lien Modification Program (2MP)
- FHA Home Affordable Modification Program (FHA-HAMP)
- USDA's Special Loan Servicing
- Veteran's Affairs Home Affordable Modification (VA-HAMP)
- Home Affordable Foreclosure Alternatives Program (HAFA)
- Second Lien Modification Program for FHA Loans (FHA-2LP)
- Home Affordable Refinance Program (HARP)
- FHA Refinance for Borrowers with Negative Equity (FHA Short Refinance)
- Home Affordable Unemployment Program (UP)

For information on the programs above, visit HUD's Making Home Affordable website or contact a housing advisor. (link to http://www.makinghomeaffordable.gov/programs/view-all-programs/Pages/default.aspx)