

Title: Ideas on Stopping Home Foreclosure and Preserving a Good Credit Rating

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Ideas on Stopping Home Foreclosure and Preserving a Good Credit Rating

By: Laura M. Sands

As the housing crisis looms, more and more Americans are facing the possibility of foreclosure. Such can be an incredibly stressful reality and one that few people have experience in dealing with. Those on the verge of this nightmare should know that there are a few legal options that may stop this from happening or that may prevent a foreclosure from ruining a good credit score even when saving the home isn't an option.

Bankruptcy is usually the first strategy that comes to mind when people think of stopping a foreclosure sale. While this is a viable option, it should be the last one pursued. It is true that bankruptcy can immediately stop a foreclosure sale, but it can also cause irreparable damage to credit and result in a loss of other valuable assets. It should also be noted that bankruptcy may affect an individual in other ways, such as being considered when applying for certain types of jobs and when applying for loans or life insurance policies totaling fifty thousand dollars or more.

If bankruptcy is the only option, however, do understand that the mortgage debt does not go away. The homeowner is still required to pay the entire loan's balance, although it may be renegotiated while in bankruptcy in order to make repayment a bit more comfortable. Depending on the type of bankruptcy filed, other ways of satisfying the mortgage may also include liquidating personal assets in order to pay off the loan.

Requesting forbearance is another way to possibly avoid foreclosure. Forbearance is a formal appeal for the lender to reduce or outright suspend monthly payments for a brief period of time so that the homeowner may work to catch up the arrearages. In the event that forbearance is granted, all terms must be precisely met in order to keep the agreement active and to keep the lender from ultimately foreclosing on the home.

Sell the property. This may be the last thing that some homeowners want to hear, but it is sometimes the best advice anyone can give them. Selling a home will not negatively affect a person's credit score like a foreclosure will. Once it is determined that saving the property is not feasible, it is time to start thinking about ways to shed the mortgage debt in its entirety. Consider selling the home through a traditional process or selling it via a bank short sale. For the latter, approach the lender to allow the home to be sold for less than its current mortgage value. Often, lenders will prefer to take a loss of this type than to take possession of the property by foreclosure, which may present a liability to them.

Request a re-amortization. Many lenders will allow missing payments to be recalculated into the remaining balance of a loan. Such can change the monthly payment amount and often extends the loan's lifetime, but it may also help return the loan to a current status and stop foreclosure proceedings.

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None of these options are easy and, certainly, they are not always the most comfortable. Unless a person can afford to pay all arrearages, however, these are often the best ways to prevent the loss of a home through foreclosure. While some are not guaranteed to work, particularly when lenders will not cooperate, all are worth consideration in order to save a home or, at the very least, to minimize the damage to one's credit rating.

If all else fails, however, and a foreclosure is imminent, offering a Deed in Lieu of Foreclosure, which is simply voluntarily deeding the property to the lender before it is foreclosed on, is the ultimate way to stop foreclosure proceedings and salvage one's personal credit. There may be significant tax consequences to this option, however, as well as particular conditions that must be met in order to obtain tax relief.

Whichever option is ultimately chosen, individuals facing foreclosure would do well to thoroughly investigate them all. Although a professional is not needed to implement each one of these options, it is always a good idea to consult a professional before attempting to navigate either of these processes alone. Real estate and tax laws may vary according to the county and state the property is located in and a working professional would be able to best advise on how to proceed.

There are also non-profit and community based agencies that may be able to assist with further education about these procedures, as well as in taking necessary action. One such organization is the Neighborhood Assistance Corporation of America (NACA), which is a HUD certified nationwide non-profit counseling agency offering workshops, resources and information dedicated to helping homeowners avoid foreclosure when possible.

Being faced with home foreclosure can be emotionally draining and incredibly stressful. Homeowners should do their best to prevent this from happening, but, at the same time, recognize that the current housing situation is to blame and not necessarily the individual owner. Individuals in this position should also recognize that they are not alone, but that there are options and organizations that may help.