The Consequences of a Home Mortgage Default
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Some of the consequences of a home mortgage default include late fees, credit injury and the risk of home foreclosure. Frequent telephone calls and letters are also sent to a property owner in an attempt to collect the past due debt, which may create added stress to a homeowner. Mortgage default often leads some property owners to renegotiate the terms of a home loan and, while this is often the best way to stop a property from being sold at a foreclosure sale, it also often results in the homeowner having to submit a lump sum as a down payment, as well as experience an increase in monthly mortgage payments, which can create a financial strain.

Most lenders allow a short grace period after a scheduled mortgage payment is due. When this period is exceeded, however, additional late fees are commonly added to the debt, and collection phone calls and correspondence begin. If a mortgage payment is not paid within 30 days, lenders will commonly report this status to credit bureaus, which is injurious to the homeowner’s overall credit rating. If a mortgage default continues, lenders may also initiate foreclosure proceedings and a homeowner can be forcibly removed from the home.

A mortgage default always places a property at risk for foreclosure. While many homeowners are able to eventually pay past due payments to keep a foreclosure sale from happening, many are not. Some of the most common reasons for mortgage default include a reduction in or a complete loss of wages, a recent divorce or any number of other family hardships. All of these situations are likely to cause stress in a homeowner’s life and a mortgage default further compounds that stress as the likelihood of losing one’s home is drastically increased.

In some cases of mortgage default and foreclosure, a lender may be inclined to sue a homeowner in an attempt to gain all monies that were lost. If the lender is awarded what is known as a deficiency judgment, a homeowner can be forced to pay a lender for financial losses, which include the past due mortgage amount, foreclosure fees and the difference between what is owed on a property and the property’s current sale value. In some jurisdictions, lenders are granted several years after a home has gone to foreclosure sale in order to sue the former homeowner for these amounts. When this occurs, many homeowners are left bankrupt as a result.