Ways to Avoid Foreclosure

By: Jenny Zhang

With a national unemployment rate hovering around 10 percent and property values still down, many Americans are struggling to make their monthly mortgage payments. What's worse is there's a widespread belief that foreclosure is a way out. The reality is that foreclosure can significantly affect your credit score, prevent you from qualifying for a loan in the near future and when you finally become eligible, can lead to high interest rates.

If you're experiencing difficulties making your home loan payment, the first thing you should do is contact your lender. Lenders will often work with you to help you keep your home.

There's no question that foreclosures negatively impact families in many ways. If you're at risk for missing your mortgage payment, here are a few ways to avoid a foreclosure:

1. Making Home Affordable Program

President Obama's Making Home Affordable Loan Modification & Refinance Program is aimed at helping struggling homeowners who have experienced a loss of income and as a result, are having difficulties making their monthly mortgage payment. The program can help to lower your mortgage rate, making your monthly home loan payment more affordable.

Wondering if you qualify? Find out now by answering a few simple questions

2. Short Sale

If you've given up on your home and simply want to get rid of it, but can't because you owe more than it's worth, a short sale might be a good option. A short sale is when you sell your home for less than you owe.

In a short sale situation, you submit the "shorted" amount to the bank for approval. This process may take many month, which often deters potential home buyers. The bank will then approve taking the full amount of the loss, work out a payment plan with you to cover part of the loss or turn down the short sale.

While this process differs in each situation, the basic idea is a compromise between the homeowner and lender to sell the house for less than what's owed. You get out of an unaffordable payment and the bank gets more money than it would if you defaulted completely on your loan. If you think this option might suit your situation, contact your lender.

3. Deed in Lieu of Foreclosure

A deed in lieu of foreclosure is a new foreclosure alternative that allows the homeowner to relinquish his property, while giving him time and in some cases, a relocation budget, to move out within a mutually agreed upon period of time. The lender will then sell off the property to retrieve the loan balance the homeowner owed. Many big lenders like CitiMortgage are now offering this option, according to the New York Times.

The difference between a deed in lieu of foreclosure and a regular foreclosure is that a deed in lieu of foreclosure transaction gives the homeowner more time in the house. Homeowners are not evicted, but are given time to move out. While most deed-in-lieu settlements allow borrowers to be released from all legal obligations to repay the loan, it's important to check with your lender about your specific situation and any tax consequences that may apply.

No matter what foreclosure alternative you choose, it's important to research your options and do everything you can do avoid a foreclosure. If you're hurting financially, a foreclosure will only make that struggle more difficult and will also negatively impact your neighbors. If you think you could use assistance, contact your mortgage lender to go over your options.

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