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## How to Avoid Foreclosure

Has the American dream of homeownership turned into a personal nightmare? To hold onto your house, consider these tips and traps

by [Maya Roney](#)

If you suddenly find yourself faced with the possibility of losing your home because of economic disaster or your own negligence, don't panic—there are steps you can take to avoid becoming another foreclosure statistic.

Others have not been so lucky. According to foreclosure listing database RealtyTrac, 1.26 million foreclosure filings were reported in 2006, up 42% from 2005, with an average rate of one filing for every 92 households.

"While foreclosures are not at historically high levels, a 42% year-over-year increase is certainly noteworthy," says James J. Saccacio, chief executive officer of RealtyTrac. The increase in foreclosures last year, Saccacio explains, was driven both by a general deceleration in home sales across the country and the impact of increases in monthly payments on adjustable rate mortgages (ARMs).

ARMs are set at a lower initial rate that resets to reflect current rates more closely after a fixed period of time, usually one, three, five, seven, or 10 years. Some \$407 billion in ARMs reset in 2006, according to Fannie Mae ([FMN](#)). As monthly rates shot up, many unsuspecting homeowners became unable to afford their payments, forcing them into foreclosure.

Other homeowners needed to foreclose because they were hit with economic tragedies such as natural disasters, divorce, illness, or layoffs. Detroit documented the highest annual foreclosure rate among the nation's largest metropolitan areas, with foreclosure filings representing 4.9% of all households, or one filing for every 21 homes. It's no coincidence that the Motor City's unemployment rate is 7.2%, the highest among metro areas with populations of 1 million or more.

### DON'T RULE OUT REFINANCING

With auto sales off to a weak start this year in Detroit and more than \$1 trillion in ARMs eligible to reset in 2007, high-risk homeowners have even more reason to boost their immunity against foreclosures this year.

At the first sign of danger, get in touch with your lender to see if there are alternative loan products available. This is especially important if you know the payment on your ARM is about to go up and you have even the slightest doubt about being able to afford the higher rate. Because of embarrassment or false hope that financial difficulties will blow over, many people do not act quickly enough.

"By addressing the problem as early in the process as possible, you can avoid the trouble before it happens," says Rick Sharga, vice-president for marketing at RealtyTrac.

Foreclosure laws vary by state, so make sure you know exactly how much time you can buy. New Yorkers, consider yourselves lucky—you have 455 days from the time you are delinquent on your loan payments before a lender can take possession of the house. Texans, you better hustle, because the pre-foreclosure period is just 27 days, shortest in the U.S.

### **REWORK IT OR SELL IT**

If refinancing isn't an option, ask your lender about loan modification. Remember, Sharga says, banks want to avoid foreclosure, too. They lose money every time they foreclose on a house, and a high rate of default could even lead to the loss of a license.

Forbearance is an agreement that allows you to pay less than the full amount of your loan payment, or sometimes nothing at all, during a certain period of time. Mortgage companies may consider you for this option if you can prove that funds from a tax refund, bonus, or elsewhere will bring an end to your tight financial situation at a specific time in the near future.

You may also be able to reinstate by paying the amount you are behind in a lump sum by a certain date. Or you may be eligible for a repayment plan that gives you a fixed amount of time to repay the total amount you owe by combining a portion of past dues with your regular monthly payment.

You can also contact a Realtor to find out what options you may have for selling your home before it is repossessed. "Selling the property below full market value is a lot better than losing everything," Sharga notes. In a market like California or New York, a soon-to-be foreclosed home can fetch up to 90% of its market value if it's moved early enough, he says, though 60% is closer to the national average. However, remember that pre-foreclosure selling is a time-vs.-cost decision—the more quickly you need to sell your home, the bigger the discount at which you need to price it.

### **DON'T MAKE ANOTHER MISTAKE**

"Foreclosure is a time when people are economically and emotionally vulnerable," Sharga says. So be wary of anybody who says they are a foreclosure rescue service, and don't sign anything without having a lawyer look at it. If something sounds too good to be true, it usually is.

"Equity skimming" is one common scam in which someone posing as a buyer approaches you and offers to pay off your mortgage. This "buyer" may suggest that you move out quickly and deed the property to him or her. The buyer then collects rent for a while, does not make any mortgage payments, and eventually allows the mortgage company to foreclose.

Phony counseling agencies may also offer to perform certain services for a fee that you can do yourself for free, such as negotiating a new payment plan with your mortgage company. If you are seeking counseling, make sure the organization with which you're dealing is certified by the U.S. Housing & Urban Development (HUD) Dept.

One legitimate organization is the Home Ownership Preservation Foundation (HPF), a Minneapolis nonprofit that receives funding from the government and lending institutions. HPF has a hotline, (888) 995-HOPE, to help homeowners who are struggling financially. The organization, which sets up financial budgets and creates tailored plans to avoid foreclosure, recently launched a nationwide campaign for foreclosure prevention.

Ultimately, homeowners may need professional consulting to get their finances in order. Sixty percent of Americans live paycheck-to-paycheck, according to HPF. While a lot of people end up in foreclosure because of economic disaster, many others had eyes bigger than their stomachs when taking out a mortgage and later found their payments difficult to digest. Your lender is required to tell you how much your monthly payment, at most, may adjust to, and you need to be sure you can afford it when that happens.

"Take a hard look at your personal finances," Sharga cautions. "Your home is probably the single biggest financial investment you are going to make."

[Click here](#) for a slide show of U.S. metropolitan areas with the highest foreclosure rates.

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