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How to Hang On to Your Foreclosed Home

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The biggest issue facing delinquent borrowers today may not be unaffordable mortgage payments but the self-inflicted wound of avoidance. As long as homeowners are ignoring the situation, it's impossible for them to restructure the debt or walk away with unscathed credit reports.

Though borrowers are undoubtedly strained, the crumbling housing market has made it easier for those at risk of foreclosure to keep their homes. Values have declined, lending standards have tightened for new borrowers, and foreclosures are an expensive and time-consuming process for the lender as well.

Today's economy, which has little appetite for home or mortgage sales, offers the distressed borrower a glimmer of hope: Lower mortgage payments are better than no payments at all.

Biltmore Capital Group, which buys and sells nonperforming residential mortgages across the U.S., is urging homeowners who are at risk of foreclosure to get in touch and work out a deal. The risk-averse markets are not affording many other options, says Jacob Benaroya, Biltmore's president and managing partner.

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"With the tightening credit markets right now, we're finding that less and less of our borrowers are being able to get refinanced," he says. "There was a time we could buy a portfolio where we could finance 30% to 40% of it and another bank would buy it and take on the risk. Right now, we're really focused on working on modifications."

Though many borrowers duck their lenders' letters, calls and visits, that's the worst possible strategy. As more time elapses without contact or payments, fewer options are left, and it becomes more likely that the borrower will lose the home. Foreclosure is not only a black mark on

a credit report, it can hurt employment prospects as well, says Greg Womack, a financial planner and president of Womack Investment Advisers.

"The sooner a person can contact their lender, the better off they are," says Womack. "A lot of people hear it on the news and say, 'I'm just one of a bunch of them. Why do anything about it?' They can save their credit and save a lot of headaches if they start taking the steps instead of ignoring the problem."

Borrowers who are in over their heads come in two categories, says William Jordan, a [financial](#) adviser with The Sentinel Group in Laguna Hills, Calif.

The first type of delinquent borrower has encountered a major financial challenge, such as a job loss or medical expense, that was not anticipated and left him unable to make the mortgage payments. Jordan says that type of borrower can usually climb out of the hole by relying on savings or undertaking a 90-day plan of scrimping and saving.

"Every dollar you spend for the next 90 days, you have to ask yourself the question, 'Can I survive if I don't buy this right now?'" says Jordan. "And if the answer is yes, you don't buy it."

Borrowers under short-term financial strains may also be able to temporarily suspend payments, giving them a chance to catch up and pay at a later date. Those with long-term payment issues may be able to change interest rates, extend the length of the loan or tack missed payments onto the loan balance. Some are also eligible for an interest-free government loan, called a "partial-claim" option, to cover missed payments.

The second type of delinquent borrower has less hope, Jordan says. These are the people who bought houses they couldn't afford without realizing the interest rate would skyrocket, or who relied on refinancing in order to afford mortgage payments. Those borrowers will likely have to forfeit the home but should be strategic about their exit, Jordan says.

Lenders sometimes leave property in a pre-foreclosure state to avoid putting more foreclosures on their books during the quarter, he adds. If afforded the option, borrowers should stay in the home as long as they can, while saving up to move out.

"They should take whatever they squeeze together for the mortgage payment and put into cash reserves," Jordan says. "Stay in the house until they're basically forced legally to move. Once you're past 90 days, it doesn't really matter how long the process drags out."

Still, borrowers must balance the risk that such a strategy could have a negative effect on their credit. For those who simply can't afford it, selling the property or turning it over to the lender are better options than foreclosure.

Time Is of the Essence

The earlier one prioritizes debts and gets in touch with the mortgage lender, the sooner and more favorably the situation can be resolved.

The Federal Housing Administration's Web site offers [guidelines](#) for those at risk of foreclosure. It also has a database of free or low-cost [housing counselors](#) for those who are intimidated or uncomfortable about working out a deal with their lenders alone.

But beware of shady offers for "pre-approved" credit, the FHA warns. Many of those deals are simply scams or come from predatory lenders who increase your debt and charge excessive fees. If a deal sounds too good to be true, it probably is.

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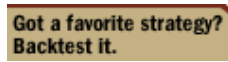
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