

Are You Having Problems Paying Your Mortgage?

Learn How to Avoid Foreclosure and Keep Your Home

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Center for Responsible Lending

NeighborWorks® America

National Association of REALTORS®
The Voice for Real Estate

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YOU'RE NOT ALONE IF YOU'RE HAVING TROUBLE PAYING YOUR MORTGAGE

The housing boom led to a record homeownership rate of nearly 70 percent, but some homeowners now face problems making their mortgage payments and can't refinance their loans. Over the last few years, lenders invented new types of mortgages to help families buy their first homes and refinance their existing mortgages. Many of these mortgages helped families without cash for a down payment, or with less-than-perfect credit, qualify for loans known as "subprime" loans.

Subprime loans have a higher interest rate and higher costs, such as prepayment penalties. A very popular, widely available mortgage product is the hybrid adjustable rate mortgage (ARM). Hybrid ARMs have an initial period with a lower interest rate ("teaser rate") followed by significant increases over the remainder of the loan. The hefty payment increase is often called "payment shock" because the borrower is surprised by the size of the increase and can't afford the new payment.

If you are having trouble paying your mortgage for any reason, or expect problems, you should work with experts and your lender to find a solution now. If you fall behind and don't take action, the lender will foreclose on your home. If that happens, you may lose your home and all of the money you have already invested in it. The sooner you act, the better the chances you will avoid foreclosure.

The Center for Responsible Lending estimates that 2.2 million American households with subprime mortgages have lost or will lose their homes as monthly payments rise on high-risk mortgages. These families stand to lose as much as \$164 billion of equity in their homes.

This brochure will help you understand your options and give you tips on how to avoid losing your home—regardless of what kind of mortgage you have.

**If you're in trouble, call
888-995-HOPE**

COUNSELING RESOURCES

Non-profit organizations dedicated to helping consumers avoid foreclosure can be invaluable.

- NeighborWorks® organizations work with the Homeownership Preservation Foundation to support a nationwide assistance number—888-995-HOPE. You can speak with a counselor, day or night, to help you get back on track financially. (English and Spanish)
- Reputable counseling agencies, such as NeighborWorks® organizations, can help you avoid foreclosure. Look up your nearest NeighborWorks® organization at www.nw.org.
- The U.S. Department of Housing and Urban Development (HUD) website has a list of HUD-approved counseling organizations, by state (www.hud.gov/counseling). We recommend that the list be used as a starting point to find good counselors. You also can call 800-569-4287 or TDD 800-877-8339.
- Watch out for questionable counseling companies who advertise that, for a minimal fee, they will assist homeowners by hiring a lawyer to defend the foreclosure in court or negotiate lender assistance on the borrowers' behalf. You should call a HUD-approved counseling organization, a local NeighborWorks® organization, or 888-995-HOPE before you pay or sign anything.

MORTGAGES WITH “PAYMENT SHOCK”

Mortgages like these can give you a “payment shock”:

- **2/28 and 3/27 Mortgages.** A 2/28 or 3/27 adjustable rate mortgage gives the borrower a fixed payment for the initial two- or three-year period before adjusting the mortgage up as often as every six months. After the initial “teaser rate” period, your mortgage payments typically adjust up every six months.
- **Interest-Only Mortgages.** An interest-only mortgage lets you pay only the interest on the loan for the first 5 or 10 years and nothing to pay off the loan amount (principal). After the interest-only period, the mortgage requires much higher payments covering both interest and principal that must be repaid over the remaining years of the loan.
- **Payment Option Adjustable Rate Mortgages.** Payment option mortgages let the borrower decide how much to pay each month. You can even pay less than the interest, and add the unpaid interest to the total amount of principal you owe. Or you can pay just the interest or an amount sufficient to pay off the loan in 15 or 30 years. These mortgages can have an especially big payment shock.

Be careful if your mortgage has any of the following features:

- A “teaser rate” or “no interest” period that expires and leads to a big jump in your monthly payment.
- An option to pay less than the full interest due in any given month. Taking that option makes the amount you owe go up instead of down, since the interest you don’t pay is added to your loan balance.
- An adjustable interest rate with very high or no limits on the amount your payment can go up.
- A payment that doesn’t include an amount for paying property taxes and homeowners insurance. This means you may be hit with big bills you didn’t expect.

HOW REALTORS[®] CAN HELP

REALTORS[®] are in the business of helping people become homeowners and want to do everything they can to make sure you can afford to stay in your home.

- The best and least expensive option will often be working with the current lender (or the “loan servicer” hired by the lender to oversee your loan). Read more about your options on the next page.
- If your current lender isn’t willing or able to help, you may be able to refinance your current mortgage with another lender. REALTORS[®] can help you find responsible lenders that make fair and affordable loans.
- To address the growing foreclosure problem, especially with subprime loans, some state and local governments and nonprofit organizations are offering financial assistance. Ask your REALTOR[®] or counselor about who to call.
- Counseling agencies are in the business of helping borrowers like you. Check out **Counseling Resources** for some ideas.
- Remember, you should shop just as carefully for a mortgage as you do for a car or anything else you buy. Getting the lowest possible rate and fees can save you many thousands of dollars over the life of the loan.
- Sometimes the only option is selling the home. Of course, no one is better at helping a seller than a REALTOR[®]. It is better to sell than go through foreclosure because it will be easier to qualify for credit in the future and buy another home.

- Be wary of advertisements like “Cash for Houses/Any Situation” or “We Buy Houses for Cash.” Consumer groups have learned that many of these are scams that bait homeowners with the promise of rescuing them from imminent foreclosure. Unfortunately, the “rescue” often involves the borrower signing over the house and the family being evicted from their home.

TALK TO YOUR LENDER

Talking to the lender, or “loan servicer” that collects the payments, should be one of your first steps. The earlier you call, the better your chance to work out a solution. Here are some options:

- **Forbearance.** Lenders may let you make a partial payment, or skip payments, if you have a reasonable plan to catch up. Tell your lender if you expect a tax refund, a bonus, or a new job.
- **Reinstatement.** Reinstatement refers to making a payment that covers all your late payments, usually at the end of a forbearance period.
- **Repayment Plan.** If you can’t afford reinstatement, but can start making payments to catch up, the lender may let you pay an additional amount each month until you are caught up.
- **Loan Modification.** Your lender may agree to amend your mortgage to help you avoid foreclosure. The options include:
 - Adding all the missed payments to the loan amount and increasing the monthly payment to cover the larger loan.
 - Giving you more years to pay off the loan, lowering the interest rate, and/or forgiving part of the loan, to lower your monthly payment.
 - Switching from an adjustable rate mortgage to a fixed rate mortgage, so you aren’t exposed to increases in your monthly payment.
 - Requiring amounts for taxes and insurance to be included with your monthly mortgage payment so you avoid big bills in addition to your mortgage.
- **Sign Over the Property to the Lender in Exchange for Debt Forgiveness.** This can hurt your credit, but is better than having a foreclosure in your credit history.

WHAT IF THE VALUE OF THE PROPERTY IS LESS THAN THE AMOUNT YOU OWE?

Where the value of the property is less than the mortgage amount, REALTORS® can help explain to the lender why it makes sense to let the homeowner sell the property for the best price and then forgive the remainder of the debt.

- Unfortunately, the amount of debt the lender cancels is treated as income when you file your tax return.
- REALTORS® and the Center for Responsible Lending are working for enactment of pending legislation so homeowners aren't stuck with a tax bill they can't afford to pay.
- Some lenders may require you to sign a promissory note for the difference between the value of the home and the amount owed. Before you sign any documents, please seek the advice of a housing counselor or lawyer.

FIND OUT MORE: QUICK REFERENCES FOR CONSUMERS

To help educate home buyers and homeowners about today's mortgage options, the **National Association of REALTORS® (NAR)** and the **Center for Responsible Lending** have produced a series of consumer information brochures. This is the fourth in the series, which also includes:

- How to Avoid Predatory Lending
- Specialty (Nontraditional) Mortgages: What Are the Risks and Advantages?
- Traditional Mortgages: Understanding Your Options

NAR also has issued a brochure in partnership with HUD's Federal Housing Administration:

- FHA Improvements Benefit You

You can find all the brochures on NAR's Website (go to www.REALTOR.org/subprime).

WATCH OUT FOR PREDATORY LENDERS

Here are some warning signs:

- **Sounds too easy.** "Guaranteed approval" or "no income verification" regardless of borrower's current employment, credit history, and assets. These claims indicate the lender doesn't care about whether you can afford to make the payments over the long haul.
- **Excessive fees.** Higher lender and/or mortgage broker fees than are typical in your market. Because these costs can be financed as part of the loan, they are easy to disguise or downplay. On competitive loans, fees may be negotiable. It is common for home buyers to pay only 1 percent of the loan amount for prime loans. By contrast, a typical predatory loan may cost 5 percent or more.

- **Large future costs.** High-risk adjustable rate mortgages where the payment rises a lot after the “teaser rate” period are seldom appropriate for families who already have had problems repaying other loans. Home buyers should avoid large single “balloon” payments (a lump sum due at the end of the loan’s term).
- **Closing delays.** The lender delays closing, so your commitment on a reasonably priced loan expires.
- **Over-valued property.** Inflated appraisals that allow excessive fees to be included in the loan and result in the borrower owing more to the bank than the home is worth.
- **Barriers to refinancing.** Prepayment penalties that make it hard for a borrower to refinance in order to pay off a high-cost loan by taking advantage of a low-cost loan.
- **No down payment loans.** These loans may be split into two mortgages, with one having a much higher cost. Home buyers should be sure they can afford the payments.
- **Unethical document management.** Ethical lenders and brokers always require you to sign key loan papers, and never ask you to sign a blank document or a document dated before the date you sign.

ADDITIONAL RESOURCES

For immediate advice, call **888-995-HOPE** to speak to a counselor on how to avoid foreclosure. Available in English and Spanish, 24/7. Or visit www.995hope.org for more information.

HUD Resources:

- For a list of HUD-approved counseling agencies, by state, go to www.hud.gov/counseling.
- HUD’s Internet page—“**How to Avoid Foreclosure**”—is aimed at borrowers with FHA-insured mortgages, but can help other borrowers as well. Go to www.hud.gov/foreclosure.

Freddie Mac: “**Keeping Your Home, Protecting Your Investment.**” Go to www.freddiemac.com and search for this brochure by typing in the full name of the brochure.

Ginnie Mae: For a simple calculator to help homebuyers estimate how much they can afford to spend, read “**How Much Home Can You Afford?**” <http://www.GinnieMae.gov>.

“**Looking for the Best Mortgage**” is a brochure issued by 11 federal agencies on how to shop, compare, and negotiate the best deal on a home loan. www.federalreserve.gov/pubs/mortgage/mortb_1.htm.

Americans for Fairness in Lending: To find consumer resources related to a variety of lending issues, go to www.affil.org.

Consumer Handbook on Adjustable Rate Mortgages (the "CHARM" booklet) issued by the Federal Reserve Board (FRB) and the Office of Thrift Supervision (OTS). <http://www.FederalReserve.gov>. At the FRB site, click on "publications and education resources" and then on "consumer information brochures."

Credit-reporting agencies:

Equifax (800) 685-1111 www.Equifax.com.
Experian (888) 397-3742 www.Experian.com.
TransUnion (800) 916-8800 www.TransUnion.com.

Go to www.AnnualCreditReport.com to ask for a free copy of your credit report, once a year, or call 877.322.8228. See also www.FTC.gov.

The National Association of REALTORS®,

"The Voice for Real Estate," is America's largest trade association, representing more than 1.3 million members involved in all aspects of the residential and commercial real estate industries. For more information, visit www.REALTOR.org.

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions. For more information, visit www.ResponsibleLending.org.

NeighborWorks® America creates opportunities for people to improve their lives and strengthen their communities by providing access to homeownership and to safe and affordable rental housing. For more information, visit www.NW.org.

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