This option is for those who do not consider their house as a Short-Term Investment, but rather they think of it as their home. If your house still serves as shelter, you consider it your home, and you can still afford it, there is no reason that you can’t just go on living in it without regard to its value versus what you owe on the mortgage.

This option does not allow you to take advantage of the cost savings of moving to a less expensive place. In addition, you may be putting significant amounts of capital into an investment that you may never see a return. Still, as long as you can make the payments, this is probably the default option, and it really is not a bad one. Eventually—no matter what happens to the real estate market—you will become ahead on the equity vs. the mortgage. In fact, the mortgage will eventually be paid off and you will own the house free and clear.

You could also choose to rent your house out.

If you can rent the house for enough to cover the expenses, you could move into a less expensive place and live there. In fact, if you can find a place to live that is less expensive, you could still come out ahead even if the rent doesn’t quite cover the costs. With this option, it is vitally important that you find tenants that are reliable. You should, at the very least, require a credit report and previous rental history.

Less drastic than that, you could rent out a room. That could make staying in the house as economical as moving someplace cheaper. This may not be what you had in mind when you purchased your home, but it could be a better option than losing it to foreclosure.
A Note Modification is a permanent solution to a borrower’s inability to make existing mortgage payments, which is accomplished by restructuring a loan, changing its terms as agreed upon by both lender and borrower. It is as if the former loan is extinguished and a new obligation is made and has terms that the borrower can afford to comply with.

Getting the Note Modification process started as soon as possible is always best.

You, the homeowner, should do all you can in the loan modification process regardless if you have hired a loan modification specialist to assist in the negotiations, since you are ultimately responsible. You should also find out as much as he can about the loan modification process, especially all your legal rights and options to avoid being tricked by predatory banks and lenders towards signing a Loan Modification Agreement that might only make matters worse.

A Loan Modification is a negotiation between you and the Note Holder to make changes to the initial Note. The Note Holder is under no obligation to negotiate; however, it is likely that it would be in their best interest to avoid costly foreclosure proceedings.

A Note Modification is not only used to bail you out because you made a mortgage mistake or believe you were misled, it is a negotiation to reach a compromise between you and the lender so that you can both prevail. You get to save your home. They get to avoid a costly foreclosure and continue to profit on the interest of your home. Banks, like all businesses, are in the game to make money.

It is important that you understand that when you call your Lender to request a Note Modification, the person on the other end of the phone are debt collectors. Their job is to get as much from you as they can.
In most cases, a Lender will not consider a Note Modification unless the consumer is suffering a hardship.

A **Hardship Letter** is the most powerful tool in convincing a lender to grant a Note Modification. **Proof of hardship** is essential regardless whether hardship is temporary or permanent. Your current hardships will signify that you want to pay your mortgage but do not have the ability to do so **under the current terms**. And thus, if the bank wants to collect cash from you, he has to restructure the loan to your favor to bring the payment terms within your capacity.

Listed below are the some of the most common reasons of hardship entertained by banks and other financial institutions.

1. Illness Borrower or Family Member
2. Loss of or Reduction of Income
3. Job Relocation
4. Property Value < Loan Balance
5. Inability to Sell Property
6. Inability to Rent Property
7. Business Failure
8. Divorce
9. Marital Separation
10. Military Duty

Like all negotiations, not all will be successful. If you truly want to stay in your home, you have to be prepared to compromise when you pick up the phone to request a Note Modification.


[www.articledashboard.com](http://www.articledashboard.com)
Fannie Mae – Home Affordability Program (HARP)

The Home Affordable Refinance Program (HARP) is designed to assist homeowners in refinancing their mortgages – even if they owe more than the home’s current value.

The primary expectation for Home Affordable Refinance is that refinancing will put responsible borrowers in a better position by reducing their monthly principal and interest payments or moving them from a more risky loan structure (such as interest-only or short-term ARM) to a more stable product (such as a fixed-rate mortgage).

Fannie Mae has an online tool, the Fannie Mae Loan Lookup, for borrowers to determine whether Fannie Mae is the investor on their loan. The Loan Lookup is available on FannieMae.com. The tool indicates whether Fannie Mae is the investor on a property at a specific address, but does not determine refinance or loan modification eligibility for borrowers.

Fannie Mae’s Refi Plus is designed for borrowers who are not experiencing any problems that could impact their ability to continue making mortgage payments.

To be eligible for Refi Plus (manual) or DU Refi Plus, the existing loan must have been owned or guaranteed by Fannie Mae before March 1, 2009.

Borrower Benefit and Reasonable Ability to Pay

The borrower benefit requirement has two distinct standards based on the borrower’s payment change:

If the borrower’s payment is decreasing, the borrower benefit provisions are met. The borrower could extend their amortization term – e.g., from 15 years to 30 years – or move from a fixed-rate mortgage to an adjustable-rate mortgage.

If the borrower’s payment is staying the same or increasing, the borrower must be moving to a more stable mortgage product. The borrower may not extend their amortization period (although a shorter amortization period is considered to comply with this standard), or move from a fixed-rate mortgage to an adjustable-rate mortgage. As a reminder, Fannie Mae encourages lenders to provide a fixed-rate mortgage whenever possible to further ensure long-term stability.

Homeowners can also contact Fannie Mae by phone at 1-800-7FANNIE (1-800-732-6643) (8 a.m. – 8 p.m. ET) or e-mail to resource_center@fanniemae.com.

Freddie Mac – Making Home Affordable

If you are current on your mortgage payments but unable to refinance because you owe more on your mortgage than your home is currently worth, you may be able to refinance to a lower or more stable rate through a Home Affordable Refinance, part of the federal Making Home Affordable Program.

A Home Affordable Refinance on a Freddie Mac-owned mortgage can help you obtain a monthly payment you can afford, and result in one of the following:

- A reduction in your interest rate
- A fixed-rate mortgage in place of an adjustable-rate, interest-only or balloon/reset mortgage
- A reduction in the term of your mortgage (e.g., from 40 years to 30 years)

If your mortgage is owned by Freddie Mac, you may be able to obtain a refinance through this program if:

- You are current on your mortgage payments (and you haven’t been 30 or more days late with a mortgage payment in the past 12 months)
- Your first mortgage is less than or equal to 125 percent of the current market value of your home

You may be eligible for a Home Affordable Refinance on your Freddie Mac-owned mortgage if the property you’re trying to refinance is:

- One-to-four units, and you are currently living in one of the units as your primary residence
- A one-unit second home, such as a vacation home
- A one-to-four unit investment property

Lenders may have additional requirements for a Home Affordable Refinance and may have their own name for this mortgage offering. To determine your eligibility and find a lender that best meets your needs, you may:

- Contact your current lender, also called "servicer." (The company to which you make your monthly mortgage payments. Contact information is located on your mortgage statement.)
- Contact a Freddie Mac-approved lender from our list of participating Home Affordable Refinance lenders.
- Contact other lenders in your community to see if they offer a Home Affordable Refinance or another refinancing option that meets your needs.

http://www.freddiemac.com/avoidforeclosure/home_affordable_refi.html
FHA-Secure

In 2007, President Bush proposed the new FHA Secure Refinance Program. This program is designed to help homeowners into fixed rate mortgages through the FHA to reduce their monthly mortgage payments and to eliminate the chance that their mortgage payments will increase in the future.

In recent years, many borrowers have been put into adjustable rate mortgages (ARM’s), deferred interest mortgages (called “Option ARM’s”), and subprime mortgages. Unfortunately, many of those mortgages are now adjusting into much higher monthly payments, making it difficult for homeowners to make ends meet.

You don't need an existing FHA home loan to qualify for an FHASecure refinance loan - the program is designed to specifically to help those without FHA loans to get lower payments and prevent default.

"Those who are current on mortgage payments can refinance non-FHA fixed rate or adjustable rate mortgages. Those who are behind on their mortgage payments may only refinance adjustable rate mortgages into an FHA Fixed Rate Program.

“Cash out refinancing” is not eligible under FHASecure

Borrowers should know this "second chance" refinancing does not indicate relaxed requirements for credit. Borrowers applying for FHASecure are subject to the same requirements as any other applicant for an FHA loan. Delinquency issues for mortgage payments aside, loan officers still require proof you are a good credit risk. Borrowers should:

• Have steady income from a dependable source.
• Show a reliable payment history on other debts.
• Have a debt-to-income ratio below 41%.
• Have a credit score appropriate for any home loan.

http://www.myfha.net/FHAsecure/

http://www.fha.com/fha_secure.cfmand foreclosure, and protect their investment
The Short Sale Process for Sellers

*A short sale is a sale of real estate in which the proceeds from the sale fall short of the balance owed on a loan secured by the property sold.*

The short sale niche is certainly growing in importance and popularity. Lenders are overwhelmed with foreclosure properties, and the word is that they're getting a little easier to deal with on short sale offers. A successful short sale helps the lender to avoid yet one more foreclosure home on their books.

If you’re not sure whether you’ll be “short” if you sell the house, hire an appraiser or ask a Realtor to do a CMA for you and deduct the balance of your mortgage(s), any line of credit(s), other lien(s) and cost of sale from the estimated market value of your property. Once you’ve done that, you’ll have a good idea of whether you’re “short” (assuming the appraisal or CMA is accurate).

If you are a Seller considering Short Selling your property, you will need the following information:

- All lien holders names and contact information
- All loan numbers
- A Third Party Authorization Form - this will allow the bank to discuss your short sale with your REALTOR. It needs to be agent and loan # specific and have an indefinite end date. Some banks have their own form; others will accept any form you prepare. You need to get this to the bank as soon as you hire a REALTOR.
- Listing Agreement - this should include a CMA of the property to justify your list price
- 2008 and 2009 W-2s - or the tax forms that you filed if you do not get W-2s.
- A Profit/ Loss Worksheet for 2009
- Last 2 Month’s Bank Statements
- Proof of Disability or Unemployment or Job Transfer (if applicable)
- Hardship Letter - this explains why you want to short sale and why the bank should allow you to short sale
Once you have all of these items, the next steps are…

1. **List the property for sale** – Some banks want the property listed for the amount that is owed first, and they will be willing to drop to a more realistic price after a period of time. The listing agent will need to back up their list price with a good CMA! Remember, a BPO will be called out as soon as they receive a contract.

2. **Receive and ratify a contract** – needs to be ratified by the seller and buyer. Some banks want one contract at a time; others want to see them as they come in. This is another reason to contact the bank ASAP.

3. **Send Contract to Bank** - get confirmation from the loss mitigation offer at the bank and preferably written proof of receipt

4. **You will also need to send** – all of the paperwork including the hardship letter you gathered/prepared prior to listing your property for sale (see earlier part of this post). The bank may ask for other items not listed here. They may also send you additional forms and paperwork for you and/or your agent to sign.

5. **Be persistent, but patient** - Make sure you ask how long it will take for a contract to work its way through the system. You want to hear it will take 30-45 days, but they may tell you that it will take just that long for them to even look at the file. You also want to ask about the likelihood the loan will be sold. **They like to sell the loans right before they give you approval, and you’ll have to start the process all over if they do.**

6. **Stay as current as possible** - Make sure you don’t get more than 2 months behind. Some banks will allow you to get up to 9 months behind, but they are harder to negotiate and keep off the auction block. If you don’t know what their policy is, ask.

These steps will need to be done for each bank that is involved and each bank has their own process. Some banks that are in 2nd position (2nd trust/mortgage) will only start processing their short-sale after they’ve received written short-sale approval from the 1st trust. This means that the overall short-sale approval process may take twice as long with two trusts/mortgages.

If you are considering pursuing the Short Sale route to sell your home, it is important that you consult an attorney that is familiar with the process. It is also important that you use a REALTOR who is trained in the short-sale process and has experience in Short Sales.

If you are thinking of doing a short sale on your home, here are some pros and cons to consider:

Pros

- **No Foreclosure** – Foreclosures can be a very hard and stressful process for a family. It can take anywhere from six to twelve months for a foreclosure to complete.
- **Being proactive** – Facing foreclosure head on will help give you some control over the process. By choosing a short sale, finding a buyer and negotiating terms with the bank, the huge effect on your credit score by a foreclosure can be dodged.
- **Start Newer, Faster** – Minimizing damage to your credit score can help you and your family get back on your feet faster. You’ll be eligible to purchase another house faster than if you entered foreclosure.
- **May not owe anything after the Short Sale** – You can try asking the bank to cancel your debt altogether. It does happen, but not all the time.
- **You no longer need to pay large monthly mortgage payments**
- **Your credit score** will usually recover more quickly than a foreclosure
- **You are more likely to escape bankruptcy**
- **If the short sale occurs between January 1, 2007 and December 31, 2009 you won’t be taxed on the debt forgiven.**

Cons

- **There is still damage to your credit** – When a short sale is done on your home, it is still documented on your credit. Although lenders will view a short sale somewhat similar to a foreclosure. The chances of getting a home loan will be slim during the ‘wait period’.
- **Tax Consequences** – there may be tax consequences if the bank forgives the debt and will issue a 1099 for the amount of debt forgiven. This form is sent to the IRS to allow the bank to write off the loss. The IRS treats the forgiven debt as a taxable income which means you will need to pay taxes on the amount owed. Although due to the Mortgage Forgiveness Debt Relief Act of 2007, no taxes are owed on the forgiven debt.
- **Bank Could Demand Payment for their Loss** – The bank doesn’t have to forgive the debt. They are able to ask you pay them back for the difference on the sale and what is owed, but you’ll need to agree to this. There are 2 options. You could negotiate the provision out of the short sale or if they insist on the repayment, you could let it go into foreclosure. It’s best to consult professional help regarding your specific situation.
- **The lender does not have to say yes to a short sale**
- **You must show proof that you cannot make your mortgage payments** and the proof must be reasonable. The lender will not approve a short sale if you gambled your savings. A few hardships accepted are such things like illness, divorce, or a job loss.
• The lender will make sure you do not have any recourse, savings or other assets to pay off the rest of the debt.
• A short sale is not short. It is a long process and it depends on how quickly you put together the right papers, how it is provided and how quickly the lender reacts. There are many people in this situation, creating a backlog in the process.
• Lenders are notorious for not communicating quickly to approve short sales.
• If your home has liens, 2nd mortgages, or a home equity line of credit, each lender has to be consulted for approval, which can take up a considerable amount of time.
• The lender may require you to sign a promissory note for the debt forgiveness in order to approve the short sale.
• The lender may pursue a repayment of the debt forgiven after the short sale is completed.
• Your credit score is going to take a hard hit as it would if it went through a foreclosure. Consult tax and legal advice.
• You could be taxed on the debt forgiveness if the property sells for more than 2 million or is not your primary residence. Consult a tax professional.

There are no guarantees in a short sale whether the bank will approve the bank or even forgive your debt, but Short Sales offer a better alternative to minimize the downside of facing a foreclosure.

A short sale is a difficult process for both the seller and buyers. There are so many details involved (more than what the average homeowner is aware of). Make sure to consult professionals who have a history of success with short sales.

http://eshortsales.net/short-sale-pros-and-cons/
The Short Sale Process for Buyers

The short sale process for the buyer is not too complicated a process. However, there are many things you have to consider and be aware of. Following is a summary of the procedure for the buyer.

Offer
The buyer starts the process by putting an offer on the home. The offer will have the acknowledgment that the house will be sold as is. Take it as is or leave it while buying a short sale.

The Servicing Loan Company
The offer, the seller’s hardship package, along with your approval letter and copy of an estimated HUD will be sent to the mortgage company. The request will typically be assigned to a “negotiator”. The negotiator will determine the ability of the Bank to accept, counter, or decline the offer. This process takes time, so you must be patient.

Once the negotiator for the bank accepts your offer, the bank will typically give you a deadline for closing the contract. If you as a buyer do not act on it, by the specified date, the contract will be null and void.

Short Sale Process for the Buyer- Tips

- Always consult an experienced real estate agent before buying a house in a real estate short sale.
- Understand the risks involved thoroughly.
- Keep in mind that a low offer can be rejected by the bank instantly.
- Stock on lots of patience.
- Do check on what the bank wants - strong offers or strong buyers

http://www.buzzle.com/articles/short-sale-process-for-buyer.html
PROS

There is one big pro - you are typically going to get a property below even current market value. Could be up to 10+% below current market value so there is the potential to get a great deal. Unfortunately, in this world you never get something for nothing. There are drawbacks for this 'smoking' deal

CONS

While you are still dealing with the delinquent property owner, the contract will have to be approved and signed off on by the bank(s) taking the loss. In some cases, the bank does not even know that a short sale is being attempted until they receive an offer. This means that the wait time when submitting an offer on a short sale could stretch from days to weeks to even MONTHS to get a reply. Not only that, but until the bank has accepted/counter the offer, the listing agent will leave the home showing as ACTIVE on the market and in the MLS soliciting other offers and will submit all received offers to the bank for approval. The bank can only pick one, of course. So you could be waiting for months and then get turned down and hear that the bank accepted an offer submitted weeks or months after your offer. This can be very frustrating, to say the least!

Because of how the bank processes offers and the aggressive pricing of these properties, it is not uncommon for well-priced short sales to sell for the full list price OR MORE due to a bidding war between suitors.

Banks want to avoid liability and will demand that the buyer submit offers with an AS-IS addendum basically stating that the buyer assumes all risk associated with the condition of the property from the time of the offer acceptance. Buyers will have the right to inspect the property, but if you miss something, the buyer - not seller - is responsible. This is one of the reasons these properties are discounted - to factor in the buyer's risk.
**A Deed in Lieu** of foreclosure is an alternative to foreclosure. In a deed in lieu of foreclosure, the property owner gives the property to the lender voluntarily in exchange for the lender canceling the loan. The item transferred is the deed to the property. The lender promises not to initiate foreclosure proceedings, and to terminate any foreclosure proceedings already underway. The lender may or may not agree to forgive any deficiency balance that result from the sale of the property.

The key issue in a deed in lieu of foreclosure is whether the lender is willing to forgive the deficiency balance. Read the contract carefully to see how the deficiency balance issue is handled. If the document is unclear, take it to an attorney with experience in property law. An attorney's time is not cheap, but will be a bargain compared to signing an agreement you do not understand and are surprised later to realize its implications.

Here is the typical (although by no means exhaustive) list of deed in lieu of foreclosure:

- the residence must already be on the market for a certain number of days (90 days is typical)
- there can be no liens on the property
- the property cannot already be in foreclosure
- the offer of a deed in lieu must be voluntary

An overlooked downside to a deed in lieu of foreclosure is the possible forgiveness of the deficiency balance. Under federal law, a creditor is required to file a 1099C whenever it forgives a loan balance greater than $600. This may create a tax liability for the former property owner because it is considered "income." However, the **Mortgage Forgiveness Debt Relief Act of 2007** provides tax relief for some loans forgiven in 2007 through 2012.

Some lenders choose short sales over a Deed In Lieu because they do not want to own the distressed property. They would much rather see the owner sell the property and lose the deficiency balance than be forced to take the property through foreclosure, as foreclosure is a costly and time-consuming process.

Whether the lender picks a deed in lieu of foreclosure or a short sale depends on how the lender balances its risks and how it wants the distressed properties to appear on their books. Local laws may have an impact on the decision, too.

Foreclosure Defined

A foreclosure occurs when a property owner cannot make principal and/or interest payments on his/her loan, typically leading to the property being seized and sold.

Stages of Foreclosure

The foreclosure process is not very difficult to understand. There are several stages during which the homeowner has an opportunity to bring the loan current and avoid foreclosure.

After about three to six months of missed payments, the lender orders a trustee to record a Notice of Default (NOD) at the County Recorder's Office. This puts the borrower on notice that he or she is facing foreclosure and starts a reinstatement period that typically runs until five days before the home is auctioned off.

If the default isn't corrected (the loan must be brought current) within three months, a foreclosure sale date is established. The homeowner will receive a Notice of Sale, and this notice will also be posted on the property. In addition, the Notice of Sale is recorded at the County Recorder's Office in the county where the property is located. Finally, this Notice of Sale is also published in newspapers local to the county in question over a three-week period.

The foreclosure Trustee Sale typically occurs on the steps of the county courthouse in which the property is located. The time and location of this sale are designated in the Notice of Sale. At the Trustee Sale, the property is auctioned in public to the highest bidder, who must pay the high bid price in cash, typically with a deposit up front and the remainder within 24 hours.

Foreclosure Auction

At auction, an opening bid on the property is set by the foreclosing lender. This opening bid is usually equal to the outstanding loan balance, interest accrued, and any additional fees and attorney fees associated with the Trustee Sale. If there are no bids higher than the opening bid, the property will be purchased by the attorney conducting the sale, for the lender.

If this occurs, and the opening bid is not met, the property is deemed a REO or Real Estate Owned. This typically occurs because many of the properties up for sale at foreclosure auctions are worth less than the total amount owed to the bank or lender.

http://www.biggerpockets.com/foreclosure-process.html