

How Foreclosures Work and Steps You Can Take To Avoid Foreclosure

Purchasing a home is a huge step in any person's life and it requires a great deal of commitment from the buyer. When you stop to consider that you are going to be repaying the mortgage on your home for many years to come, it is easy to see what a huge commitment buying a home really is.

Unfortunately, many people get overwhelmed with financial difficulties and get behind in making those mortgage payments. Some people struggle with paying their mortgage because of unforeseen medical expenses, the loss of a job, and getting in over their head with credit card debt. No matter what the reason is that they find themselves in financial distress, it is critical that they attempt to keep their home, their largest financial investment, from being foreclosed.

The Legal Definition of Foreclosure

In simple terms, a foreclosure is when the lender attempts to obtain possession of a property that the lender had loaned money to the borrower to purchase. A lender provides you with a mortgage and the home is considered to be collateral until you pay off the mortgage in full and with interest. If you stop making payments on your mortgage, the lender has the legal right to foreclose and take possession of your home in order to recoup the money that they originally loaned you. Any equity that you have built up over the years by making payments will be lost, since you will no longer have legal possession of the house.

The foreclosure allows the lender to declare the entire amount of the debt on the property to be due immediately. Failure to pay off the debt in full will result in the lender being able to take legal possession of the house or property. The lender is then able to sell the property, to pay for any remaining debt that is owed to the lender.

The foreclosure process varies from state to state. You will need to check out the specific foreclosure laws in your particular state to understand the exact process that is followed in your state. The most common processes are court proceedings and grants of power to the lender to sell the property.

Be Aware Of The Fine Print In Your Mortgage Papers

Most lenders will have an acceleration clause in the loan paperwork that says if you miss a number of payments over a period of time that the lender may implement this clause. The acceleration clause simply says that the lender has the right to foreclose on the property if the payments are not made in a timely manner. Many states regulate acceleration clauses and allow late payments to avoid foreclosure. In some instances, the acceleration clause will stipulate that you are not only responsible for the principal, but

also the total interest financed when a foreclosure is implemented.

A Bird In The Hand...

Lenders, like people, come in many forms and can be quite understanding at times or rather demanding at other times. Your particular lender, and their policies, can dictate how quick they are to act on a foreclosure and how willing they are to work with you to resolve your financial issues without implementing a foreclosure process.

Ultimately, most lenders would rather have the cash than having to deal with the process of foreclosing on a house and then selling it. If bankers wanted to be real estate salesmen they would have went into real estate instead. For the lender, the old saying, "a bird in the hand is better than two in the bush" is very pertinent to the question of foreclosure. You are already in the home, and it would be far easier to get you to pay for the home than it would be to put it up on the market. Sure, the bank could profit handsomely by absorbing your equity, but they could potentially lose big if the house were to sit on the market unsold for many years.

It is often recommended that you work with your lender if you are experiencing financial problems and are unable to make your mortgage payments. Lenders frequently have to deal with people who simply ignore the warning letters that they receive, instead of contacting the lender to try to work something out with them. By contacting your lender at the first sign of distress, you have shown more concern and resolve than most borrowers who find themselves experiencing financial problems.

Have The Courage To Act Instead of React

These words of Oliver Wendell Holmes are as valid today as when Holmes uttered them in the 19th century. Most people react passively to foreclosure proceedings, allowing the sky to fall around them. Yet, had they the courage and conviction to take positive action, they could have avoided the loss of their home and the years of bad credit that comes with a home foreclosure.

It is imperative that you review all of the clauses in your mortgage paperwork, so that you are fully educated on the circumstances that could lead to foreclosure with your particular lender. Again, it is also important for you to know what your state's law is regarding foreclosures. If you need help understanding all of the legalese associated with financial documents, loans, contracts and foreclosures, you might consider hiring a professional to help you through the difficulties of the process.

Losing your home to a foreclosure could be devastating in many ways. Not only do you lose your home, but also you lose all of the equity that you have acquired during the years that you have been paying on your home. This equity that you have obtained is often considered a financial asset, and as a financial asset, it will help to ensure your ability to

recover financially once you have gotten through this difficult time in your life. Additionally, you will want to avoid foreclosure, because your credit rating will be dramatically impacted in a negative way as a result of a foreclosure.

Whatever financial difficulties you might be facing right now are likely short-term in nature, but a home foreclosure could haunt your credit for seven years. If you go so far as filing for bankruptcy, your credit will be harmed for a period of ten years. Keep in mind -- and this is very important --- at the end of the seven-year and ten-year windows, it is your individual responsibility to contact the credit reporting bureaus, to have them delete the foreclosure and bankruptcy records from your credit report. These stains on your credit record will not drop off automatically at the end of the recommended time period.

Given the importance of protecting your financial assets and your credit rating, you need to take whatever steps are necessary to help you avoid letting these difficult months that you are facing now tarnish your financial reputation for many years to come.

Despite the pressures you might feel right now in your financial situation, this IS NOT a time to be cutting corners, by trying to navigate these difficult waters on your own. People, who in the past have hired a professional financial-services specialist to help them through this difficult process, generally consider that expense to be some of the best money they ever spent.

There is still hope for getting through this difficult situation, so long as you do not choose to give up all hope.

There are numerous aspects of residential real estate that go far beyond the obvious. JS Real Estate Solutions (<http://www.jsrealestatesolutions.com>) was established by **Jeff Spellman**, a financial-services specialist, to help investors and homeowners enhance their investments, protect their assets and maximize their returns. If you are a home owner, and you are trying to stop a foreclosure in New York State, please visit: <http://www.jsrealestatesolutions.com/stopforeclosure.html>
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