



PRINCIPAL
RESIDENTIAL
GROUP, LLC

Foreclosure

What is a Foreclosure?

A process where a lender attempts to recover the amount owed on a defaulted loan. The lender may repossess the property and then sell the property to someone else. The foreclosure process starts after the borrower defaults on mortgage payments and the lender files a Notice of Default.

- *Notice of Default:* (NOD) a publicly recorded notice stating that a property owner is behind scheduled loan payments for a loan secured by a property. This process is required in Arizona to begin the foreclosure process if a borrower is in default.

Foreclosure vs. Short Sale

- A **Foreclosure** in Arizona usually occurs in the form of a Trustee's Sale. Because we have Deeds of Trust instead of Mortgages, when a Buyer borrows funds from a Lender, they agree to let the Lender SELL the home if they default. The party entrusted with this sale is a Trustee. When a property is taken back due to default, the Lender attempts to sell the property at a Trustee's Sale to wholesale property investor/buyers. If the property does not sell, the Lender now becomes owner of the property and must attempt to sell it themselves as a Bank Owned (REO) property on the open market.
- A **Short Sale** bypasses this step by allowing the Owner of the property to sell the property BEFORE the Trustee's Sale takes place. The sale is contingent on the Lender's approval of the terms and amount of the sale. Because the net dollar amount to the Lender in a Short Sale is usually higher than the net amount in a Trustee's Sale or REO sale, they are usually more inclined to accept the offer and let the sale take place.

Foreclosure and Your Credit

It is estimated that one's credit score may be lowered anywhere from 250 to 300 points, and will typically affect the score for over three years. This may also affect one's employment or chance of future employment, since employers have the right to regularly check the credit of all employees or future employees. Foreclosure also affects the possibility of obtaining a future mortgage loan. For example, a homeowner who loses a home to foreclosure is ineligible for a Fannie Mae backed mortgage for a period of five years. In addition, with any other mortgage company, someone who has lost their home to foreclosure will have to answer yes to question C in section VIII on any future 1003 mortgage application, which asks "Have you had a property foreclosed upon or given title or deed in lieu thereof in the last seven years?" Thus, if you foreclose, you will be recovering from the credit hit for five years or possibly more.

Tips to Avoid a Foreclosure

1. Don't ignore the problem. The further behind you are on your mortgage payments, the harder it will be to reinstate your loan and more than likely you will lose your home.
2. Contact your lender as soon as you realize that you have a problem. Lenders do not want your home. They have options to help borrowers through difficult financial situations.
3. Open and respond to all mail from your lender. The first notices you receive will offer good information about foreclosure prevention that can help you weather financial problems. Later mail may include important notice of pending legal action. Your failure to open the mail will not be an excuse in foreclosure court.

4. Know your mortgage rights. Find your loan documents and read them so you know what your lender may do if you can't make payments. Learn about the foreclosure laws and timeframes in your state by contacting the State Government Housing Office.
5. Understand foreclosure prevention options. Valuable information about foreclosure prevention, also known as loss mitigation, can be found online.
6. Contact a HUD-approved housing counselor. A housing counselor can help you understand the law and your options, organize your finances and represent you in negotiations with your lender if you need this assistance.
7. Prioritize your spending. Review your finances and see where you can cut spending in order to make your mortgage payment. Hint: look at your optional expenses like cable, memberships, or entertainment.
8. Use your assets. Do you have a second car, jewelry, whole life insurance policy, anything you can sell for cash to help reinstate your loan? This type of effort demonstrates to your lender that you are willing to make sacrifices to keep your home.
9. Avoid foreclosure prevention companies. Instead of using that money to pay fees for foreclosure prevention help, you could pay your mortgage instead. These may be legitimate businesses, but they will charge you a hefty fee for information and services that a HUD approved housing counselor would provide for free.
10. Don't lose your house to foreclosure recovery scams. If a firm claims they can stop your foreclosure immediately if you sign a document appointing them to act on your behalf, you might be signing over the title to your property. Never sign a legal document without reading and understanding all the terms, and getting advice from a professional attorney, real estate agent, or housing counselor.

Information provided by HUD.gov (http://portal.hud.gov/portal/page/portal/HUD/topics/avoiding_foreclosure/foreclosurertips)