

National Black Church Initiative

# FORECLOSURE PREVENTION GUIDE

*Help for Homeowners Facing Financial Hardships*



**1-888-995-HOPE (4673)**



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INITIATIVE



# A Note from Rev. Anthony Evans

## Dear Homeowner,

Did you know that homeownership is the most common way to obtain and build wealth in America? For African-Americans and Latinos, roughly 80 percent of total net worth is comprised of housing equity. Housing equity can provide you as a homeowner with many options. You can use the equity in your home to start a business, finance your child's education and become financially independent. Preserving your status as a homeowner is extremely important to us.

So if you are facing financial hardship, I want you to know that you are not alone. We at the National Black Church Initiative are with you spiritually, and it is our mission to help you successfully navigate these challenging times. With that said, know that there are resources available to you — people who want to help you stay in your home. After all, foreclosure isn't a good situation for anyone. The homeowner loses, the lender loses and the community loses.

To help you avoid a foreclosure situation, the National Black Church Initiative has partnered with trustworthy organizations — the Mortgage Bankers Association (MBA) and Fannie Mae — to bring you this comprehensive foreclosure prevention guide. It's my hope that the information we provide will lead you to the help you need — to the resources and people willing and ready to help you get back on track and if possible avoid foreclosure. As always, I encourage you to seek guidance from your lender before using your home for the purposes stated above. While the intent makes sense, such uses can lead to additional financial troubles if used without the proper counsel.

I encourage you to rely on your strength during this difficult time. As a person of faith, you should immediately seek the guidance of your church, your pastor and your church members. Remember that this situation, if handled correctly, can be temporary. If at any time you find yourself feeling despondent and anxious, seek immediate assistance from a mental health service. If you do not have health insurance, contact your city, county or state mental health services department. You can find this information by calling your local government. If you're unable to locate help, don't hesitate to contact us at [dcbci2002@yahoo.com](mailto:dcbci2002@yahoo.com) so we may provide you with essential information.

Yours Truly,  
Rev. Anthony Evans

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## FORECLOSURE PREVENTION TIPS

**1. CONTACT YOUR LOAN SERVICER IMMEDIATELY.** This is the company you send your monthly mortgage payment to, and it should have a customer service number listed on your monthly bill. It may seem counter-intuitive to call the company to which you owe money, but it is the best thing you can do for yourself and your family.

After all, lenders' and borrowers' incentives are similar since neither benefits from a foreclosure. Lenders are experienced in creating "workout" plans that may allow troubled homeowners to stay in their homes, and lenders have staffs dedicated to helping their customers through difficult periods. It's important to remember that laws require lenders to initiate foreclosure proceedings at a certain point so be sure to contact your servicer right away. Also remember to deal directly with your servicer or a HUD-approved counselor when it comes to setting up workout programs. Be wary of any advertisement that you may receive stating that your debt will be forgiven. This could be a scam. Remember that if an offer sounds too good to be true, it very well may be.

**WHEN CONTACTING YOUR SERVICER:**

- Ask about alternatives to foreclosure, including repayment plans, postponements of regular payments (called forbearance), and other workout options. Remember: Workout options are tailored to your individual situation, but you must qualify for the plan being considered.
- Provide any information requested by your servicer quickly to avoid further foreclosure action – don't wait until the last minute. Servicers must evaluate each borrower's circumstances on a case-by-case basis and go through an approval process to arrange workout plans. This can take time, so it's important you act immediately to be in touch and promptly provide any information the servicer requests.
- Be prepared to provide detailed financial information to assist your servicer in qualifying you for a potential workout option. Be honest about your circumstances and personal finances — it will lead to the workout option that best fits your situation.
- Be ready to change your spending habits. By creating a workable budget and understanding where your money is going, you are more likely to be successful in a workout plan.
- Open all mail from your servicer or your servicer's law firm and return calls promptly. Failure to respond quickly may result in further foreclosure actions and additional costs.

**ASK THE CRITICAL QUESTIONS:**

What is the anticipated timeline to complete a workout?

Will the foreclosure sale be postponed while your servicer reviews the workout option?

What are your obligations under the workout arrangement: due dates, amounts due, how long your servicer will postpone collection of payments, if applicable, and when such deferred payments must be paid back?

- If you are not making payments into an escrow account for real estate taxes and insurance, your servicer will likely require that you begin doing that and will work with you to recover any payments already made on your behalf. You can usually save money and get better coverage if you obtain your own homeowner's hazard insurance policy instead of having your servicer arrange coverage for you.
- Stay in contact with your servicer and/or counselor at all times. Notify your servicer and counselor of any change in your circumstances, including new employment or problems making payments under a workout plan.
- Be realistic about your own financial condition. If you cannot afford to keep your property, consider selling it to get your equity out, or talk to your servicer about other options to give up your property.
- Understand that the servicer is trying to ensure a positive result for you. Be cooperative, honest and keep your promises on any workout arrangement.

**2. IF FEASIBLE, REFINANCE YOUR LOAN.** Refinancing into a fully amortizing, fixed-rate, lower cost loan may be a viable option for you. You and your lender will need to conduct an assessment of your financial situation to determine if refinancing is a possibility and if it will benefit you. Also be sure to ask about *FHASecure*, a program that helps homeowners who are in good credit standing but who are having trouble making their mortgage payments. The Federal Housing Administration (FHA) is able to offer many of these homeowners an option to refinance their existing mortgages so they can make their payments and stay in their homes.

**IF REFINANCING IS AN OPTION, BE SURE TO ASK YOUR LENDER...**

- Can my interest rate and monthly principal and interest payment go up over time?
- Can my loan balance go up, even if I make minimum payments on time?
- Will my mortgage payment include insurance, taxes and other charges?
- Will I have to pay a prepayment fee if I pay the loan in full ahead of schedule?
- If so, how much is the fee? For how long is it in effect? Does it decline over time?
- If I agree to a prepayment fee, what do I get in return?
- Can I make extra payments to reduce principal without penalty? Are there any limitations I should know about?
- Does this loan have a balloon payment? If so, how much? When is it due?
- Will the lender be obligated to refinance my balloon payment mortgage?
- Will I have to pay an additional fee if a payment is late?

For more information, check out The Simple Facts guide and The Simple Facts mortgage calculator at [www.simplefacts.com](http://www.simplefacts.com).

**3. CALL THE 24 HOUR FREE COUNSELING HOTLINE 888-995-HOPE** provided by the Homeownership Preservation Foundation. All counselors are provided by five leading HUD-approved nonprofit allies that are certified and trained to help you set up a customized plan of action. Spanish-speaking counselors are also available.

**4. GET IN TOUCH WITH CITY, STATE AND/OR COUNTY GOVERNMENT AGENCIES.**

Ask them about assistance they may provide to homeowners who are having trouble making their mortgage payments. You may be surprised what services and opportunities are available.

**5. MAKE YOUR CREDITORS AWARE** of your housing and financial situation. See if they can lower interest rates on your credit cards or refinance or consolidate any of your loans. If so, put these savings toward your mortgage payments.

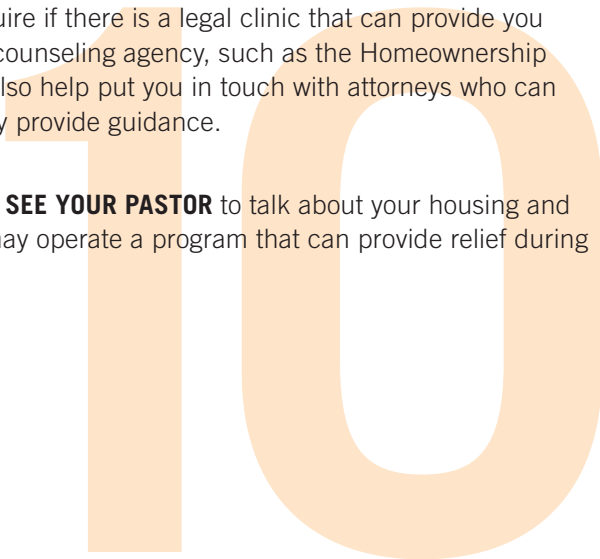
**6. CREATE A BUDGET.** By managing your money closely on a daily basis you may find areas where you can save— giving you more money to put toward your mortgage payment. Remember that every dollar saved will get you one step closer to keeping your home.

**7. FIND CREATIVE WAYS TO SAVE.** Seek assistance from relatives or friends who may be able to lend you money or look into various employment opportunities. Perhaps you or your spouse could take on a second job to help ease your financial strain. Look into selling belongings that you no longer need, or rent out a room in your home to a college student or trusted renter.

**8. RE-READ YOUR MORTGAGE AGREEMENT.** Housing and financial counseling organizations, such as the Housing Preservation Foundation at 888-995-HOPE, can also help you to interpret and understand your contractual responsibilities. Understanding your loan is critical in getting through tough times. Don't forget to check out the mortgage and foreclosure term glossary on pages 10–11 to find definitions for various loan phrases.

**9. SEEK LEGAL COUNSEL** if you think you have been a victim of predatory lending. Call your local university to inquire if there is a legal clinic that can provide you with assistance. A fair lending counseling agency, such as the Homeownership Preservation Foundation, can also help put you in touch with attorneys who can look into your case and possibly provide guidance.

**10. MAKE AN APPOINTMENT TO SEE YOUR PASTOR** to talk about your housing and financial issues. Your church may operate a program that can provide relief during trying times.



# Where to Find Help

## HOUSING NON-PROFITS

- Homeownership Preservation Foundation — (888) 995-HOPE (toll free), [www.995hope.org](http://www.995hope.org)
- The National Fair Housing Alliance — (202) 898-1661, [www.nationalfairhousing.org](http://www.nationalfairhousing.org)
- Coalition for Nonprofit Housing and Economic Development — (202) 745-0902, [www.cnhed.org](http://www.cnhed.org)
- NeighborWorks America — (202) 220-2300, [www.nw.org](http://www.nw.org)
- Center for Responsible Lending — (202) 349-1868, [www.responsiblelending.org](http://www.responsiblelending.org)
- Homefree Funding — (301) 891-8400, (866) OWN-2DAY (toll free), [www.homefreeusa.org](http://www.homefreeusa.org)

## CONSUMER EDUCATION WEB SITES

- Home Loan Learning Center's Foreclosure Prevention Resource Center (brought to you by the Mortgage Bankers Association) — [www.homeloanlearningcenter.com](http://www.homeloanlearningcenter.com)
- National Black Church Initiative — [http://naltblackchurch.com/housing\\_initiative.html](http://naltblackchurch.com/housing_initiative.html)

## GOVERNMENT AGENCIES

- Department of Housing and Urban Development — [www.hud.gov](http://www.hud.gov)
- HUD Housing Counseling — [www.hud.gov/counseling](http://www.hud.gov/counseling)
- HUD Approved Housing Counseling Agency — (202) 708-1112
- Federal Reserve — [www.federalreserve.gov](http://www.federalreserve.gov)
- Find other government agencies by calling 1-800-FED-INFO (333-4636) or go to [http://www.usa.gov/Agencies/Federal/All\\_Agencies/index.shtml](http://www.usa.gov/Agencies/Federal/All_Agencies/index.shtml)

## OTHER MORTGAGE-RELATED WEB SITES

- Fannie Mae — [www.fanniemae.com](http://www.fanniemae.com)
- Freddie Mac — [www.freddie.mac.com](http://www.freddie.mac.com)



# Foreclosure Prevention Checklist

If you are having trouble making your mortgage payments, be proactive and take charge of the situation. Empower yourself by getting fully acquainted with your mortgage, your finances and your resources. Start with this checklist so you know what you have done and what you still need to do. By doing so, you have a much better chance of remaining a homeowner.

## DONE TO DO

- ☐ Create a budget.
- ☐ Find creative ways to save money.
- ☐ Contact your servicer if you are having trouble making your mortgage payments. The servicer is the company you make your mortgage payments to. Contact information can be found on your mortgage documents and on the servicer's Web site. A reputable credit counseling agency should also be able to help you find the appropriate contact information.
- ☐ Meet with a reputable lender to determine if refinancing is a viable option for you.
- ☐ Call the free counseling hotline 888-995-HOPE or another reputable agency. Refer to page 8 for additional counseling resources.
- ☐ Open all mail that is sent to you by your mortgage company. Avoiding the situation will only make matters worse.
- ☐ Find copies of your original mortgage documentation, proof of income and the delinquency or foreclosure notices you receive. You will need these documents for discussions with your servicer and/or credit counselors.
- ☐ If your lender has gone into bankruptcy or is going out of business, contact the company you make your payments to so that you know who will be purchasing your loan. Obtain contact information for that new servicer so you can start making payments to the new lender.
- ☐ Seek legal counsel if you think you have been a victim of predatory lending. Call your local university to inquire if there is a legal clinic that can provide you with assistance or contact your state attorney general, the American Association of Residential Mortgage Regulators ([www.aarmr.org](http://www.aarmr.org)), fair housing agency or the Federal Trade Commission ([www.ftc.gov](http://www.ftc.gov)).
- ☐ Ask your creditors whether the relief you request will impact your credit standing and credit score in a negative way. If so, ask for any alternative that will not impact your credit standing.

# Mortgage & Foreclosure Term Glossary

## MORTGAGE TERMS

### Adjustable Rate Mortgage (ARM)

A mortgage loan or deed of trust that allows the lender to adjust the interest rate in accordance with a specified index periodically and as agreed to at the inception of the loan, typically one, three, five or 10 years.

### Amortize

Repayment of a debt with periodic payments of both principal and interest, calculated to pay off the debt at the end of a set time period.

### Balloon Mortgage

A mortgage with periodic installments of principal and interest that do not fully amortize the loan. The balance of the mortgage is due in a lump sum at a specified date, usually at the end of the term.

### Buydown Mortgage

A mortgage with a below-market interest rate that results in lower monthly mortgage payments for the first few years or the entire term of the mortgage. A buydown, in the form of a "point" or "points" is made by a lender in return for money received from a builder, seller or homebuyer.

### Convertible ARM

A type of ARM that may be converted into a fixed-rate mortgage at specified intervals during a predetermined time period. There is usually a fee to be paid when the loan converts, and the rate can be slightly higher than the current rate for fixed-rate loans.

### Fixed-Rate Mortgage

A mortgage in which the interest rate and payments remain the same for the life of the loan, typically 15 or 30 years.

### Home Equity Line of Credit (HELOC)

An open-ended loan, usually recorded as a second mortgage that permits borrowers to obtain cash advances based on an approved line of credit.

### Hybrid ARM

There are two types of hybrid loans: those that begin as a fixed-rate loan and convert to an ARM and those that begin as an ARM and convert to a fixed-rate. The first type of hybrid ARM offers a fixed-rate mortgage at a lower rate for an initial specified period, typically two, three, five, seven or 10 years and then adjusts to a variable interest rate tied to the London Interbank Offered Rate (LIBOR). The rate is capped at a specified amount at the inception of the loan so that the payments will stop increasing when the rate cap is reached.

### Interest-Only Mortgage

A payment-option ARM that allows the borrower to make only the principal payment. The unpaid interest is then added to the balance of the loan, which increases the loan balance rather than decreasing it (negative amortization). When the loan balance reaches a certain specified amount, the payments go up regardless of when the option period ends.

### Low- or No-Documentation Loans

Quick qualifying program for residential mortgages that eliminates many verification documents and speeds up the approval process. These programs typically require a substantial down payment.

### Pre-payment Penalty/Pre-payment Premium

A charge the homeowner pays for the privilege to prepay the loan.

### Refinance

The payoff of an existing loan with a new loan using the same property as security. There are many reasons for refinancing; however, the most common reasons are to raise money or to replace a mortgage with a new mortgage that provides a better interest rate and possibly better terms for the borrower.

### Two-Step Mortgage

A mortgage where the interest rate stays the same for a stated period, then changes, typically after five or seven years.

## FORECLOSURE TERMS

### Deferred Payments

Payments that are authorized to be postponed as part of the workout process.

### Equity

The net value of an asset. In the case of real estate, it would be the difference between the present value of the property and the mortgage amount on that property.

### Escrow

An item of value, money or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate. In some parts of the country, escrows of taxes and insurance premiums are called “impounds” or “reserves.”

### Escrow Account

The segregated trust account in which escrow funds are held.

### Escrow Analysis

The periodic examination of escrow accounts to determine if current monthly deposits will provide sufficient funds to pay taxes, insurance and other bills when due.

### Forbearance

The act of refraining from taking legal action despite the fact that the mortgage is in arrears. It is usually granted only when a homeowner makes satisfactory arrangements to pay the amount owed at a future date.

### Foreclosure

The legal process in which a mortgaged property is sold to pay the outstanding debt in case of default.

### Hazard Insurance

Insurance coverage that provides compensation to the insured in case of property loss or damage.

### Investment Property

A property purchased to generate rental income, tax benefits or profitable resale rather than to serve as the borrower's primary residence.

### Investor

Any person or institution that invests in mortgages or mortgage-backed securities.

### Lender Placed Insurance

Insurance placed on a property by a lender to protect the lender's interest on collateral (the house) securing a loan.

### Repayment Plan

An arrangement by which a borrower agrees to make additional payments to pay down past due amounts while still making regularly scheduled payments.

### Servicing

A mortgage banking function that includes the receipt of payments, customer service, escrow administration, investor accounting, collections and foreclosures. Also called “loan administration.”

### WorkOut

An alternative action to foreclosure for the benefit of the lender and the borrower. Includes loan modification, short sales and various forms of forbearance. Also called “restructure.”



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