Worried About Foreclosure After The Economic Shutdown? Here Is What You Need To Do Now.

June 9, 2020 - Last month, mortgage delinquencies in the United States skyrocketed. It only took 30 days for the delinquency rate to exceed 1.4 million. When the Great Recession of 2008 occurred, it took 90 days for delinquencies to reach that level. And with millions of Americans out of work, or working reduced hours, or having to change jobs to take a position that pays less than they made before COVID19, etc, etc, etcâ€¦ there is every reason to expect many people will be facing the prospect of foreclosure in the near future. But there are things you can do to head that off if you are proactive about it.

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To start with, you need to know that your bank doesn't want your house. In fact, foreclosures are about the last thing that any real lender wants to think about. Banks arenâ€™t set up to manage properties, and every bank we're aware of views foreclosures as a problem. Moreover, during the Great Recession banks learned just how detrimental large numbers of foreclosures could be. More than one lending institution was taken over by the government during that time frame because of foreclosures and the issues they created. Those lessons are still fresh enough that today's lenders are going to be more prone to work with their borrowers than they might have been otherwise.

If you are facing financial issues due to COVID19, the time to act is now. This is especially true when it comes to your mortgage. Even if you have money in the bank today, if you are going through your savings at an unsustainable rate, you need to act. But before you contact your lender, you need to have a fairly clear picture of your options.

If you have a fair amount of equity in your home, but you no longer have the ability to make your monthly payments, you might consider talking to your bank about a loan modification. This could be in the form of adjusting the terms of your existing loan, or it could mean refinancing. During the last recession, many banks would only consider loan modifications for people who were already delinquent on their payments. But that proved to be a tremendous mistake so lenders are now more willing to look at term modifications even when a loan is current.

Another option would be to consider placing your property up for sale right now. Even though the economy has been shuttered for the past couple of months, home prices really haven't dropped yet. That's because many sellers pulled their properties off the market as soon as the economy was shut down. Ironically, the has led to a shortage in the number of properties available for sale, which has in turn kept prices from plummeting. But that isn't likely to last for long. IF you are thinking about selling the time to act is now while there is still a shortage of properties.

If you don't have much equity in your home, your options will be more limited. It isn't likely that you'll be able to get a loan modification, but if you can sell out at a break-even level, you'll still be able to protect your credit so that when the market does come back, you'll be able to purchase again.

In the event you can't sell at a break even, your options are less attractive. If you have extra money available, you may want to chip in to make your lender whole at close of escrow. This will at least protect your credit but it isn't something that will work for a lot of people. If you can't do that, then your remaining options are to go through a short sale, do a deed in lieu transfer of your property to your lender, or to allow the lender to go through the foreclosure process.

All three of these last options will result in a credit blemish for you, but those blemishes aren't necessarily equal. After the recession, people who had gone through both short sales and deed in lieu transfers often found that they could qualify to purchase a home again in 3 to 4 years. Lenders were less kind to those who forced them into a foreclosure. In most cases, people who did this had to wait 7 years before they could purchase again. That really isn't surprising when you consider the processes involved in each of these.

In a short sale, the property sells for an amount that is less than what is owed to the bank. But it is an orderly process and the bank normally recoups a substantial amount of the money that it is owed. In a deed in lieu transaction, the homeowner agrees to transfer title of the property directly to the bank and move out. Again, an orderly process that normally results in the lender being able to recoup a substantial amount of their investment.

But foreclosures can be another story entirely. They can have substantially higher costs for the lender, and in the event that the original homeowner refuses to move, can result in lengthy eviction procedures which can include substantial court costs. And it isn't uncommon for former owners to get mad at their lenders and do damage to the property while they are being evicted. It really shouldn't surprise anyone that banks would be reluctant to lend money to someone with a foreclosure on their credit record.

If you believe that you could have trouble making your mortgage payment in the next few months, then it would be very wise to pick up the phone and start talking to your lender about options now, while you have to some to plan. Waiting until you are out of time isn't going to help at all, and it could very well hurt you. As we said at the beginning of this piece, your lender doesn't want your home. The earlier you start working with your lender, the more options you're likely to have.
by Jim Malmberg
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