Sounds too easy.

Here are some warnings:

WATCH OUT FOR PREDA TORY LENDERS

- Excessive fees. Higher lender and/ or mortgage broker fees than are typical in your market; because these costs can be financial as part of the loan, they are easy to disguise or downplay. On competitive loans, fees may be negotiable. It is common for home buyers to pay only 1 percent of the loan amount for prime loans. If you pay a typical predatory loan, you may cost 5 percent or more.

- Large future costs. High-risk adjustable rate mortgages where the payments rise a lot after the initial interest rate period are seldom appropriate for families who already have had problems repaying other loans. Home buyers should be sure they can afford these payments (a jump due at the end of the loan’s term).

- Closing delays. The lender delays closing, so your commitment on a reasonably priced loan expires.

- Overvalued property. Inflated appraisal that allows excessive fees to be included in the loan and results in the borrower owing more than the home is worth.

- Barriers to refinancing. Prepayment penalties that make it hard for a borrower to refinance in order to pay off a high-cost loan by refinancing into a low-cost loan.

- No down payment loans. These loans may be split into two mortgages, with one having a much higher cost. Home buyers should be sure they can afford the payments.

- Questionable document management. Ethical lenders and brokers always require you to sign key loan papers, and never ask you to sign a blank document or a document dated before the date you sign.

For immediate advice, call 888.995.HOPE to speak to a counselor on how to avoid foreclosure. Available in English and Spanish. 24/7. Or visit www.995hope.org for more information.

H UD Resources:

- List of HUD-approved counseling agencies: www.chul.gov/counseling
- “How to Avoid Foreclosure” (aimed at FHA borrowers but can help others as well): www.hud.gov/foreclosure
- Freddie Mac: “Keeping Your Home, Protecting Your Investment.” Go to www.freddiekm.com and search for this brochure by typing in the full name of the brochure.
- Ginnie Mae: For a simple calculator to help home buyers estimate how much they can afford to spend, visit www.ginnie Mae.gov.
- “Looking for the Best Mortgage?” is a brochure issued by 11 federal agencies on how to shop, compare, and negotiate the best deal on a home loan. Visit www.federalreserve.gov/mortgagesoftware.htm. A mortgage shopping guide to help you find consumer resources related to a variety of lending issues, go to www.alli.org.

Counseling Resources

Nonprofit organizations and other experts dedicated to helping consumers avoid foreclosure can be invaluable.

- Consider contacting your attorney or a local Legal Aid office, especially if you have reason to believe you were the victim of questionable lending practices. A good place to start is at www.lawhelp.org.
- NeighborWorks® organizations work with the Homeownership Preservation Foundation to offer a nationwide assistance number—888.995.HOPE. You can speak with a counselor, day or night, to help you get back on track financially (English and Spanish). Reputable counseling agencies, such as NeighborWorks® organizations, can help you avoid foreclosure. Look up your nearest NeighborWorks® organization at www.aw.org.
- The U.S. Department of Housing and Urban Development (HUD) website has a list of HUD-approved counseling organizations, by state (www.hud.gov/counseling). We recommend that the list be used as a starting point to find good counselors. You also can call 800.669.4287 or TDD 800.877.8319.

Look out for questionable counseling companies who advertise that, for a minimal fee, they will have a lawyer to defend the foreclosure in court or negotiate lender assistance on your behalf. You should call a HUD-approved counseling organization, a local NeighborWorks® organization, at 888.995.HOPE before you pay or sign anything.

Additional Resources

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Follow us for more information.
Neighbors will suffer financial losses, too, as the foreclosures cause nearby property values to drop by $356 billion. The chances you will avoid foreclosure. You have already invested in it. The sooner you act, the better.

Million American households with subprime mortgages have experienced problems, you should work with your loan servicer. If you are having trouble paying your mortgage for any reason, or 888.995.HOPE

Talk to the lender, or loan servicer, the company that collects payments on your mortgage, is the most affordable. For homeowners who face losing their home, a loan modification is often the most effective way to avoid foreclosure. The steps include:

- Adding all the missed payments to the loan amount and changing the monthly payment to cover the larger loan.
- Giving you more time to pay off the loan, lowering the interest rate, and/or forgiving part of the loan, to lower your monthly payment.
- Switching from an adjustable rate mortgage to a fixed rate mortgage, so you can avoid higher monthly payments.
- Requiring amounts for taxes and insurance to be included with your monthly mortgage payment so you avoid big bills in addition to your mortgage.

Other options include:

- Repayment Plan. If you can start making payments to catch up, work out an additional amount each month until you are caught up.
- Forbearance. Lenders may let you make a partial payment, or skip payments, if you have a reasonable plan to catch up. Tell your lender what you expect to do, and you forbearance period.
- Reinstatement. Reinstate refers to making a payment that covers all your late payments, usually at the end of a forbearance period.

Sign Over the Property to the Lender in Exchange for Debt Forgiveness (often called “deed in lieu of foreclosure”). This can hurt your credit, but is better than having a foreclosure in your credit history.

Watch out for companies that ask you to sign papers that waive your right to pursue legal action against them—especially if you expect to continue struggling with your home loan.

Mortgage with “Payment Shock”

The best defense against a bad mortgage is avoiding loans that can quickly ratchet up the monthly payment. Mortgages like these can give you a “payment shock.”

- 2/28s and 3/27s, A 2/28 or 3/27 adjustable rate mortgage gives you borrowing at a fixed rate for the first two years or two-to-three year period before becoming an adjustable rate mortgage. After the initial period, your mortgage payments typically adjust up, often dramatically, every year.
- Interest-Only. An interest-only mortgage lets you pay only the interest on the loan for the first 5 or 10 years and nothing to pay off the loan amount (principal). After the interest-only period, the mortgage requires much higher payments covering both interest and principal that must be repaid over the remaining years of the loan.
- Payment Option Adjustable Rate Mortgage. “Payment option” mortgages allow a number of different payment options each month, including paying less than the amount of interest due. The unpaid amount is added back to the total owed, which over time can quickly snowball into an unaffordable loan.

Forbearance periods can have an especially big payment shock. Be careful if your mortgage has any of the following features:

- A teaser rate or “no interest” period that expires and leads to a big jump in your monthly payment.
- An option to pay less than the full interest due in any given month.
- An adjustable rate mortgage with very high limits on the amount your payment can go up.
- A monthly payment that doesn’t include an amount for property taxes and homeowners insurance. This means you may be hit with big bills you didn’t expect. A prepayment penalty that requires you to pay the lender a penalty fee if the mortgage is refinanced or otherwise paid off before a specified period.

What if I can only sell my property for less than I owe my lender?

If you are struggling with your home loan and the value of the property is less than the mortgage amount, make sure you explore all options with your loan servicer or a housing counselor. In some cases, REALTORS® can help explain to the lender why it makes sense to sell the property for the best price and then forgive the remainder of the loan.

Until recently, the amount of debt the lender canceled was treated as income when you filed your tax return REALTORS® and others helped pass legislation that will prevent this burden from being placed on eligible homeowners who are relieved of their obligation to pay some portion of their mortgage debt between January 1, 2007 and December 31, 2010. Full relief is available only if the amount of forgiven debt does not exceed the debt that was used to acquire, construct, or rehabilitate a principal residence. Other limits also apply; consult your tax advisor or IRS guidelines for details.

Some lenders may require you to sign a promissory note for the difference between the value of the home and the amount owed. Before you sign any documents, seek the advice of a housing counselor or lawyer.

Find out more: quick references for consumers

To help educate home buyers and homeowners about today’s mortgage options, the National Association of REALTORS® (NAR) and the Center for Responsible Lending have produced a series of consumer information brochures. This is one of a series, which also includes:

- How to Avoid Predatory Lending
- Specialty (Nontraditional) Mortgages: What Are the Risks and Advantages?
- Traditional Mortgages: Understanding Your Options

NAR also has issued a brochure in partnership with HUD’s Federal Housing Administration:
- FHA Improvements Benefit You
- You can find all the brochures on NAR’s website (go to www.REALTOR.org/advice).