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Alternatives to Foreclosure

- **Forebearance** – Under this plan the lender may allow the borrower to skip a payment or make a partial payment if the borrower can suggest a reasonable plan to catch up on the amount in arrears. This could be very favorable for someone who has been temporarily out of work or has experienced a very unusual and unavoidable expense such as sickness or an emergency. The caveat here is that just because the lender has exercised forebearance once, does not necessarily mean that they will do this again in the future.

- **Reinstatement** – Similar to Forbearance but under this plan the borrower agrees to make a lump sum payment in the future to bring the mortgage "up to date." This could be made possible by tax refunds, future bonuses, anticipated increase in family income or something similar. The difference here is a lump sum payment.

- **Repayment Plan** – If the borrower cannot meet the requirements of reinstatement or forbearance the lender may allow the borrower to catch up on what is owed by increasing the monthly payments until the missed payments are brought current. This is a very favorable plan for many distressed homeowners.

    - **Loan Modification Plan** – Some lenders may be willing to do one or all of the following:
        - **Modify a mortgage** by converting it to a fixed rate mortgage at a lower interest rate and extending the years of the mortgage to reduce the monthly payments.
        - **Giving more years to pay off** the mortgage and adding the missed payments to the balance of the mortgage.
        - **Forgiving part of the loan** amount to make the payments affordable.

- **Deed In Lieu of Foreclosure** – Sometimes referred to as "Deed for Keys" or "Friendly Foreclosure." As with foreclosure, this plan does affect a person's credit rating, but not as negatively as foreclosure. In order to enact this plan the loan amount usually must be lower than the anticipated sales price.

- **Cash for Keys** – This plan works when there is equity in the property and the lender and the homeowner agree to exchange cash from the lender for the keys to the property. The borrower walks away with cash and the lender owns a property that has enough equity to cover the cost. The advantage of this plan is that it is fast and avoids considerable expenses and red tape. This plan is not common, but you should still investigate it with your lender if you have a substantial equity position.

- **Sell the Home** – If the value of the property is greater than the loan amount, there is a good possibility that the property could be sold prior to foreclosure. It is important to offer the property at a price that will attract many qualified buyers, especially if real estate values are falling or if there are a considerable number of similar properties for sale in the area.

- **Upside Down Properties** – This refers to those properties in which the mortgage is greater than the value of the property. In this scenario, the financial institution may be willing to forgive some of the mortgage to make a sale possible in order to avoid foreclosure. The amount of the mortgage that is forgiven may be taxable and the mortgage company may send the borrower a 1099 form at the end of the year. Referred to as "Short Sales," these transactions have become a preferred method of avoiding foreclosure. This process may result in a negative impact on the borrower's credit rating, though not as much as a foreclosure.