1 How Lenders Can Help Borrowers Avoid Foreclosure

When a borrower misses his or her first payment or believes he or she is likely to default on a mortgage payment in the immediate future, the bank has a number of loss mitigation tools at its disposal. Recognizing that each case of a delinquent borrower contains unique circumstances, the following is a list of potential loss mitigation options.

Refinance

The lender can give qualified borrowers a new loan at the current interest rate, which can lower a borrower's mortgage payment.

Forbearance

The lender allows a borrower to make partial or no payments for a period of time, after which there is further evaluation of the borrower's circumstances to find a permanent solution. This approach is often used when a borrower has a reduction in income or increase in expenses that is not expected to be permanent.

Repayment or Restatement Plan

An agreement where a borrower resumes making regular monthly payments in addition to a portion of the past due payments in order to bring the loan current.

Loan Modification

A written change to the terms of the loan involving one or more of the following:

- Reducing the rate, either temporarily or permanently;
- Making permanent the rate of an adjustable rate loan;
- Extending the term (length) of the loan;
- Deferring missed payments;
- Capitalizing missed payments (adding the past due amount to the principal balance);
- Deferring principal; or
- Reducing principal.

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Partial Mortgage Insurance Advance Claim Payment

In cases where the mortgage is insured by either the Federal Housing Administration (FHA) or a private mortgage insurer, this option may be available. It consists of a one-time payment ("advance") made by the mortgage insurer to the bank to cover all or a portion of the defaulted loan payments. The borrower then agrees to pay back this advance directly to the mortgage insurer over a period of time, or at the time of sale or transfer of the property.

Assumption

A qualified borrower (other than the current borrower) agrees to assume legal responsibility for the repayment of the mortgage.

Short Sale / Preforeclosure Sale

The borrower sells the property (with the bank's permission) for less than the outstanding mortgage balance. In many cases, the bank forgives the remaining debt (the difference between the sale price and the amount owed on the mortgage).

Deed in Lieu of Foreclosure

The borrower voluntarily signs over the title to the home to the bank in exchange for release from all obligations under the mortgage.

Foreclosure

The bank takes title to the house from a borrower in default.

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