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MISSED MY MORTGAGE PAYMENT.

NOW WHAT?

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MISSED MY MORTGAGE PAYMENT, NOW WHAT?

I've missed my mortgage payment. What are my options? These historic times have put many people very quickly in the unexpected situation of missing a mortgage payment. The important thing is that a homeowner has options.

The right answer isn't the same for everyone. Each homeowner's situation is different. But no matter the situation, hiding under the couch and waiting out a foreclosure is never the right option.

Being proactive is more important than ever in these trying times. A homeowner needs to be upfront and communicate with their lender. Below are a homeowner's options should they miss a mortgage payment.

TECHNICALITY

For most mortgages, the actual payment isn't due until the 15th of the month. The time period between the 15th and the last day of the month would be considered late. A homeowner would only have to pay the late penalty if it is paid between the 15th and the end of the month. During this time period there would be no reporting to the credit agencies.

After a homeowner has gone past this period, then they are in default. This is the point when a mortgage company may begin to report any delinquencies to the credit agencies and will begin to make attempts to collect payment on the loan.

FORBEARANCE

We have heard a lot about Forbearances recently as there are stories of banks offering forbearances all over the news. A forbearance is a temporary postponement of mortgage payments. It is a form of repayment relief granted by the lender or creditor in lieu of forcing a property into foreclosure.

While a forbearance is great and could be exactly what a homeowner needs as they get back on their feet, it can also cause some pain for those that don't fully understand the program. After the period of forbearance, the homeowner must pay back all money owed during the time of nonpayment.

As an example, say I owe $1,500 per month for my mortgage. I call the bank as I am unable to pay this month and they offer me a 6-month forbearance. I am elated with joy.

In the next 6 months, I get a new job and am now ready to start paying my mortgage. On month 7, I get a note saying that I owe for that month's payment ($1,500) plus the other 6 months while I was in Forbearance ($9,000). Total owed to the bank is $10,500 as I must repay any payments that were missed in the forbearance period.

If a homeowner is in a forbearance and are able to pay before the period is over, then it is highly recommended that a homeowner start paying in order to lower the large lump sum owed at the end of the period. This is a great option for a person going through short term pain and will be back on their feet quickly.

For most homeowners however, a Forbearance is a method to "buy some time" and keep them in their home longer without causing future financial harm through credit delinquencies. Unfortunately for most, the end result remains the same.

MODIFICATION

A loan modification is a change made to the terms of an existing loan by a lender. It may involve a reduction in the interest rate, an extension of the length of time for repayment, a different type of loan, or any of the combination of the three.

There are many requirements for a bank to accept a modification with each bank's rules being different. One of the most important is that the homeowner has a job and can show income that can cover their personal liabilities (car, food, etc.) as well as the monthly loan obligation.

Using the example above, I am now $10,500 behind on my mortgage. I call the mortgage company and explain the situation and that I can't pay the $10,500. They tell me that is fine and understand the situation I am in and offer me a modification to spread the repayment of that $9,000 over the next 12 months.

That $9,000 divided by 12 would mean that I would owe an additional $750 per month. This would make my total mortgage payment for the next 12 months $2,250.

This new mortgage payment is a 50% increase in my original payment owed.

This is why it is so important that if a homeowner can afford to come out of the forbearance and pay their mortgage they do so as quickly as possible. A homeowner using the forbearance for 2 months and then spreading that over the 12 months would result in an additional $250 a month or a total payment of $1,750 using the example above.

Modifications are a great tool when a homeowner has found employment and are able to have the resources necessary to pay while negotiating an acceptable modification.

It is important to note that most modifications do not end up working for homeowner's in the long run. The reasons are simple as most modifications turn out to be a repayment vs. the adjustment of terms to make the mortgage more affordable to a homeowner. Fitch Ratings sited that 3 out of 4 mortgage modifications may re-default after just 12 months.

REFINANCE / HOME EQUITY LINE OF CREDIT (HELOC)

This is always a tough decision, but in most cases selling a house is the best way to protect someone's financial future as well as retain as much hard-earned equity as possible.

There is a belief that a homeowner is not able to sell a house when they are behind on their mortgage. This is not true. The sale of a house is identical whether a homeowner is current on their mortgage or behind. The only difference is that at closing any additional balance owed through accrued interest and fees will be calculated and payed off at the time of the closing.

Selling a house will help preserve a homeowner's future ability to use their credit as well as save them tens of thousands in fees, penalties and accrued interest while a bank is going through the foreclosure process.

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FORECLOSURE

Ultimately foreclosure should never be the option. A homeowner is always better off selling a property through a traditional sale or a short sale (if a homeowner owes more than a property is worth).

A foreclosure will drastically affect a homeowner's financial future as the actual foreclosure will stay on a person's credit report for the next 7 years. This will affect not only a person's ability to borrow, but also the rate that they are able to borrow for.

A homeowner will still receive the remaining equity after a foreclosure sale has happened. However, the sale price will generally be greatly discounted compared to the true market value and will also have additional fees, penalties and the accrued interest added in.

As an example, say I owed $100,000 on a house that was worth $200,000. At foreclosure auction that same house may sell for $160,000. The fees that it cost to foreclose plus interest and penalties account for an additional $35,000. In this case as a homeowner I would receive a check for $25,000 with my credit damaged for the next 7 years.

This is compared to a scenario where that same owner may have walked away with $90k if they had gone through a traditional sale.

CONCLUSION

On a separate note, if a homeowner does fall behind, then paying a partial mortgage payment will not do anything to help if they are in the foreclosure process. It is thought that paying whatever a person can will slow or stop the foreclosure process. This is not accurate and a homeowner needs to speak with a Certified Distressed Expert.

This is a tough time not only emotionally, but strategically to minimize any harm on a person's financial future. If you know of a homeowner that is struggling and is looking at one of the above situations, then please have them reach out to Jeffrey Chubb at 617-480-2600 or by email at Jeff@Boston2.com.

He specializes in helping distressed homeowners navigate the difficult times and will take the time to discuss all the options a homeowner has and help put together a plan to preserve their financial future. His consultation is information based and complementary.