

Office for Financial Success – Financial Tip of the Week
A service of the Personal Financial Planning Department
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Losing the American Dream

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The last thing a homeowner wants to think about is losing their home, particularly following foreclosure. Focusing on the foreclosure process, however, allows us to help you recognize actions you can take every day, in order to address potential problems – even if those problems seem as remote as the Arctic Circle.

What is foreclosure?

Foreclosure is “a legal action that ends ownership rights in a home when the homebuyer fails to make the mortgage payments or is otherwise in default under the terms of the mortgage” (Freddie Mac Glossary 2008). In the contract signed by the homeowner with the mortgage lender, the borrower agrees to make house payments to repay the loan. If they do not pay the monthly mortgage payment, the mortgage is in default and, while state laws may vary, any loan secured by real estate that is delinquent - as little as one day - can be considered for foreclosure, in order to transfer ownership to the lender. When foreclosure is complete, the lender can sell the property and keep the proceeds to pay off the mortgage, as well as all legal costs.

Warning signs of foreclosure

Unexpected *life changes* often contribute to foreclosure (and bankruptcy) — especially those that impact your finances including:

- Loss of employment or reduction of hours
- Major illness or injury
- Divorce or separation
- Death of a spouse

There may be *financial signals* to potential troubles with your mortgage. You may have a difficult time managing your finances. Financial difficulties in one area can, and often do, spill over to other areas. Talk to a housing or financial counselor immediately if you see any of the signs below. Signs to watch for include:

- Maxing out credit cards
- Using credit cards to pay for day-to-day expenses, like groceries and utilities
- Being unable to pay your bills in full and on time
- Paying only the minimum amount on credit card accounts
- Applying for new credit cards after maxing out existing ones
- Having to choose which bills to pay each month

Steps to prevent foreclosure, as well as other financial tragedies

Over the years, the Financial Tip of the Week has focused on behaviors designed to prevent financial casualties. As a reminder:

- Save money - Build an emergency fund of three to six months of household expenses.
- Reduce expenses - Reducing your expenses, perhaps to only necessities, allows you to save money — every little bit helps.
- Make a budget - Think about the changes you can make if you find yourself facing financial difficulties. Think about the changes you can make to ensure that financial difficulties never arrive!
- Call your lender - Lenders want borrowers, not properties. They prefer that you keep your home. Most will work with you while you get back on your feet.
- Be honest - Each situation is handled on a case-by-case basis and it's important for the lender to have all the facts for each case. Honesty truly is the best policy.
- Know who and what you owe - Do you know exactly how much principal you owe on your mortgage and other debts? You need to know what you owe on all of your debts and make your mortgage the priority if you have to make choices and you want to keep your home.
- Talk to a housing or financial counselor - A housing counseling or consumer credit counseling agency may be able to help you restructure your bills so it's easier to pay them. To find an agency or counselor that is approved by the U.S. Department of Housing and Urban Development, go [here](#).
- Contact a nonprofit housing group - A housing nonprofit group can provide valuable advice. A toll-free telephone hot line (888-995-HOPE) funded by the [Homeownership Preservation Foundation](#) provides free foreclosure prevention information and counseling in both English y Español.

Do not wait until you are in financial trouble to assess your options. The time to develop a plan is now, when things are going well and you can prepare for the unexpected. *Do not wait until you're thrown overboard to learn how to swim!* If, however, you realize you are having trouble with your credit, in particular your mortgage, take steps to prevent foreclosure and to keep on your path toward *financial success*.

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Personal Interviews with local bankers in Savannah and St. Joseph, Mo.

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