

Homeowners in Trouble Need to be Proactive

According to a November report by Standard & Poor's, about half a trillion dollars' worth of adjustable-rate mortgages are due to reset to higher rates in 2008 when their two-year teaser rate periods come to an end.

Even though general interest rates have been headed down recently, you should know that it may not affect the mortgage market all that much. And if you suspect the lapse of your teaser rate will make your future monthly payments unaffordable, you need to take action now, not when higher payments take hold.

Mortgage trouble can be a sign of other concerns in a person or family's financial life, and it makes sense to review your entire financial picture. One way to do this is to seek out the advice of a trained financial expert such as a Certified Financial Planner™ professional. A CFP can examine what you're doing right and wrong with credit as a whole and make suggestions on how to circumvent immediate problems. In general, their advice might be the following:

Act first: If you believe that you are going to be late with a payment of any kind – not just your mortgage lender's – contact the lender first. A recent Freddie Mac survey reported that of 2,000 homeowners reporting they were behind in their payments, 31 percent said they had not contacted their lenders despite repeated warnings of penalties and foreclosure in the mail.

Use every contact you have: If you have a person-to-person relationship with your lender, start by talking to a branch manager or an actual human you can use as a stepping stone to getting the right answers. If you have worked with a mortgage broker for years, perhaps they can help you get closer to a lending official who can consider your case more quickly and effectively.

Know the best time to act: There's a key window to exploit. At 15 days past due, a file is typically referred to a lender's collection department, and at 30 days, the delinquency is reported to the credit bureau. Once the 15-day notice arrives, immediately respond to the letter, and try to reach a department manager during the day to explain your situation and formulate a plan of action. If you are late, it won't prevent a ding in your credit rating, but it may save your loan and your home.

Know your mortgage rights: Check your loan agreement and learn what your lender can or cannot do if you fail to make payment. Check the State government housing division and get information on the applicable law.

Go back to the basics: Review your spending plan and make appropriate changes. Now is the time to prioritize.

Ask for a change in your loan agreement: Under certain circumstances, such as loss of a job, medical problems or evidence of other financial burdens beyond your control, a lender might either renegotiate the terms of your loan or temporarily grant a forbearance agreement that would suspend payments or allow you a lower payment over a period of time. Ask under what conditions you might be eligible for either option.

Refinance if you can: The best option to rescue yourself from a huge jump in your monthly mortgage payment is to refinance, preferably into a fixed-rate mortgage. Keep in mind your lender won't be all that excited about it if your credit picture isn't that healthy and if your home value has dropped, refinancing will be even less likely. Have a conversation with a tax advisor or a financial planner to see if there are options.

If foreclosure is looming: Use your advisors to see if they know legal or other resources to help you negotiate with your lender to prevent the loss of your home. Obviously, the time to act was before the foreclosure notice was issued, but as a situation worsens, it's obviously no time to go it alone. Keep in mind that a lender doesn't want you to go into foreclosure any more than you do – lenders almost always lose money in foreclosure. Do consult with tax and legal advisors during this process, and stay away from foreclosure prevention companies since their fees are high. Always keep in mind that foreclosure victims are easy targets for scams.

-30-

This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Angel McCall, CFP, a local member of FPA. You will find additional informative articles at www.AngelMcCallCFP.com.