UNDERSTANDING WORKOUT OPTIONS

If you are behind on your mortgage payments, a "workout" may be available through your lender. Workouts are special arrangements to bring your loan current and prevent foreclosure. Not all of these options may be right for you; talk with your lender to find out which ones are available. Ask for any proposed workout to be sent to you in writing before you agree to it. *If you have questions or need help understanding a workout option, contact a foreclosure counselor.*

Options for remaining in your home:

Reinstatement: A reinstatement is when you pay the full amount you owe (total of past due monthly payments plus all fees) in a lump sum by a specific date.

Repayment plan: Under a repayment agreement, you would make your regular monthly payment to your lender plus some extra each month to catch up over several months.

Forbearance: If you have the resources to bring your loan current but need time to get the total amount, your lender may approve a forbearance agreement to temporarily reduce or suspend your payments. Forbearance is often combined with a reinstatement if you know you will have a lump sum of money available at a future date to pay the total amount you owe.

Loan Modification: In a loan modification, you would typically have to pay some of the amount you owe, and then the rest of the amount you owe would be added back into your loan. This could result in a change in your monthly payment amount. Some loan modifications involve changing the interest rate from an adjustable rate to a fixed rate, or extending the number of years to repay the loan. You may need a short-term forbearance before a loan modification is approved; during this time you would save money for the loan modification to demonstrate that your situation has stabilized.

Partial Claim or Partial Release: If your mortgage is insured, you may qualify for a low interest or interest-free loan to bring your loan current through the insurer (usually FHA). This loan would be repaid at a later date, usually when you pay off your first mortgage or sell your home.

Options for moving out of your home:

Pre-Foreclosure Sale or Short Sale: If you can no longer afford your home, this option involves selling your house to prevent foreclosure. If you owe more on the home than its value, your lender may agree to accept less than what is owed on the mortgage. Typically you would need a 3-5 month period for your real estate agent to sell the house to a qualified buyer. There may be income tax consequences with a short sale; talk to a tax preparer to find out.

Deed-in-lieu: If you can no longer afford your home, another option may be a deed-in-lieu of foreclosure, when your lender may agree to forgive the debt you owe if you sign over (give back) the property. Typically you would first have to try to sell the home for 90 days before the lender would consider this. If you have a second mortgage or judgment on the property, a deed-in-lieu may not be an option. There may be income tax consequences with a deed-in-lieu; talk to a tax preparer to find out.

Minnesota
Home Ownership
Center
P 651.659.9336 • F 651.659.9518
Toll free 866.462.6466
www.hocmn.org