How To Live *With* Your Mortgage, Not *For* It.

Now that You Have a Mortgage, Keep it

Whether this is your first home or a move-up, careful planning and budgeting are key to meeting your new financial obligations.

Problems you once turned over to the landlord (or your parents) are now your responsibility. And the expenses of maintaining a larger home often grow along with its size.

Planning for unexpected situations, as well as the routine costs of owning a home, can help you avoid foreclosure or bankruptcy when emergencies arise.

Be prepared for homeownership: add the unexpected to your budget.

The expense of owning a home goes beyond a monthly mortgage and utility payments. Homebuyers with minimal cash reserves can often find themselves in financial difficulties. Here are some common reasons:

- Failures in plumbing, electrical and heating systems (which seem to occur at the worst possible times) must be repaired.
- In older homes, complete replacement of water heaters, furnaces or kitchen appliances may be needed, and can be very expensive.
- Even new homes require landscaping, interior decoration and furnishings.

The budget you created before beginning your home search should have included just such expenditures. If not, it's time to start accumulating adequate reserves to deal with the above, as well as with emergencies or to make your mortgage payment in case of illness or loss of income.

In the meantime, know what sources of financing are open to you in an emergency—you may have to use a home equity loan, a second mortgage or an installment loan.

When Is a Mortgage Delinquent?

Payment is considered late if the lender receives it after the due date set out in your mortgage. A history of chronic lateness will harm you if and when a real emergency occurs. Serious consequences begin when a payment is more than 15 days late.

15 days late. The lender usually charges a late payment fee (the late fee is 5% of your total payment).

Two or more mortgage Payments owed. Unless specific arrangements are made with your lender, you must make all payments and late charges before another payment is accepted and the loan is considered current.

Three or more mortgage Payments are due and unpaid. The loan may be given to the lender's attorney and foreclosure proceedings initiated. The entire balance of the loan may be due and payable immediately. In addition to the loan payments due, you are liable for legal fees incurred by the lender. At this point, you are in serious danger of losing your home.

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Planning for Unexpected Changes to Your Income

The primary causes of foreclosure and bankruptcy are many times those things that are unexpected, such as illness, change in work schedule and access to overtime, loss of employment or change in marital status.

Few of us factor these things into our plans, but all of us should have some idea of what we can do if trouble strikes. It's much easier to identify alternatives before problems occur.

If you know a change in your situation is about to happen, don't risk delinquency and the possibility of losing your home. Talk to your lender early.

If you have equity in your house, you may be able to acquire a second mortgage or equity line of credit in order to consolidate your bills. This can improve your financial situation quickly, but be careful—you are incurring more debt. Make sure you have a solid plan for meeting these new debt obligations in the short-term.

If you simply can't generate the funds on your own, there are many legitimate organizations dedicated to helping people in short-term trouble. Many churches, civic groups and non-profit housing assistance or counseling agencies have or know of programs. State and local housing agencies are also places to seek help. Remember that time is both your enemy and your friend—use it wisely and take some preliminary steps before real trouble strikes.

What to Do if Financial Trouble Hits

Here's the good news: no lender wants to foreclose on a mortgage. Foreclosures cost more than can be made back, so lenders foreclose only as a way of limiting losses on a defaulted loan. If you do get behind on your payments, your lender likely will work with you to bring the loan current. In order to do so, however, you must stay in communication with your lender and be honest about your financial situation.

Your lender's willingness to help you with current problems will depend heavily on your past payment record. If you have made consistently timely payments and had no serious defaults, you should find the lender much more receptive than if you have a record of unexplained chronic late payments.

If you are falling behind in your payments, or know that you are likely to in the immediate future, contact your lender right away about alternative payment arrangements.

Your lender will ask for information about your monthly income and expenses. Be sure to use realistic figures based on your current financial situation. The lender will also ask about your assets and liabilities, including all debts and monthly payments and when they are due. If the lender needs proof of income (pay stubs, unemployment check stubs, tax returns, etc.) he or she will let you know. Remember, your lender does not want to foreclose.

Your Lender Wants to Work with You

An agreement between you and your lender to prevent the loss of your home is called a loan workout plan. It will have specific deadlines you must meet to avoid foreclosure, so it must be based on what you really can do to make you loan up-to-date again.

The nature of the workout plan will depend upon the seriousness of the default, your prospects for obtaining funds to cure the default, whether your financial problems are short term or long term and the current value of your property.

- If the default is caused by a temporary condition likely to end within 60 days, the lender may consider granting you “temporary indulgence.” An example of where this would be considered is a house that has been sold but the sale has not settled; another is a pending insurance settlement. The lender will want documented evidence, such as the sale contract, before granting indulgence.

- If you suffered a temporary loss of income but can demonstrate that your income has returned to its previous levels, you may structure a “repayment plan.” This workout requires normal mortgage payments to be made as scheduled, along with an additional amount that will cure the delinquency in no more than 12 to 24 months. In some cases, the additional amount may be a lump sum due at a specific date in the future. Repayment plans are probably the most frequently used type of workout agreement.

- It may be impossible for you to make any payments at all for some time. If you have a good payment record with the lender, a “forbearance plan” will allow you to suspend payments or make reduced payments for a specified length of time. In most cases the length of the plan will not exceed 18 months and will stipulate the start of foreclosure action if you default on the agreement.

A workout plan is a last-ditch effort by you and your lender to keep you in your home. It is not a substitute for good financial planning, and likely will not be available if your payment record is poor. Lenders will work closely with good borrowers who are having a period of real emergency and hardship, but are not inclined to cooperate with those who demonstrate little financial discipline.

Clearly, having a good payment record is important, as is communicating with your lender at the first sign of trouble. Remember, your lender wants to work with you. Everyone has unexpected difficulties from time to time. Open communication with your lender can help you avoid unnecessary complications.

Contact your Boulder Valley Credit Union with questions concerning your mortgage needs.

Visit our Mortgage Loan Center at

www.bvcu.org

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