Consequences of Foreclosure

Foreclosure is something that no homeowner wants to face.

It involves the lender taking and selling the property after the homeowner failed to meet his or her side of the mortgage contract. Because having a foreclosure on your credit report will likely ruin your credit rating for years, if you are having a hard time making your mortgage payments, it is essential that you take whatever measures are necessary to avoid foreclosure. Negative information remains on your credit report for 7 years.

Making monthly housing payments can be very difficult if you have lost your job, have accumulated large medical bills or have experienced any other major misfortune. One misfortune could be agreeing to sign a contract that is a sub-prime. Sub-prime is referred to as “non-conforming mortgages”, which are targeted at consumers with impaired or low credit ratings who may find it difficult to obtain finance from traditional sources. They are also known as predatory lending. Traditional sources are financial institutions.

The first thing to do in such an event is to talk to the lender and explain your situation. Be truthful and tell him why you are having a hard time making your payments on time.

Describe your financial assets, expenses and other debts. Even if your situation looks hopeless, do not give up. Dealing with foreclosed property usually results in a significant loss of money for the lender, so he will probably try to help you as much as he can. If the property is sold for less than what is owed, you will still owe the difference. If there is a large enough difference, the lender attorney will probably look for other assets that they will try to acquire to settle the debt. Or, you may want to try to sell the property outright.

Possible solutions include developing a more affordable repayment plan, temporarily suspending monthly payments or allowing you to only make interest payments, applying any prepayments you have made to the outstanding payments, referring you to a debt counseling agency, and modifying the terms of your mortgage agreement.

Any time a lender writes off a portion of a debt you owe, the lender must report it to the IRS on a Form 1099-C or 1099-A - a report of miscellaneous income. This means you generally must include the written-off portion of the debt as income on your tax return the following tax year, unless you are insolvent or eliminate the debt in bankruptcy.

Source: Adapted from http://extension.missouri.edu/explore/hesguide/housing/gh5002.htm and State of Illinois Attorney General fact sheets.