



## Tips to Avoid Financial Disasters

### Know the terms of your contract

Make sure you understand the interest rates charged as well as monthly payments you owe. Under some contracts, rates and payments are variable and may increase in the future.

### Save money for emergencies

Your emergency fund should have enough money to pay your living expenses for two to six months if you lose your source of income.

### Establish a home equity line of credit

Only use it for emergencies and pay it back when your circumstances improve.

### Avoid debt

Try to live within your means. Keep credit card usage low and try to pay off the balance every month.

### Protect your credit rating

Keep your debt down, pay your bills on time and check your credit reports regularly. Credit reports are available free at [www.annualcreditreport.com](http://www.annualcreditreport.com) or by calling Annual Credit Report Request Service at 1.877.322.8228.

### Prioritize your debts

Try to pay off debts with the highest interest rates as quickly as possible. Make at least the minimum payment on all others.

### Visit "Your Money's Best Friend" Online

The Pennsylvania Department of Banking maintains a website with information to help deepen your understanding of financial issues, deal with major milestones in life and connect with state and local services to help you make the most of your hard-earned money: [www.moneysbestfriend.com](http://www.moneysbestfriend.com).

**"Beware of little expenses. A small leak will sink a great ship"**

*-Ben Franklin*

If you have questions or concerns about any of the terms contained in this brochure, the Pennsylvania Department of Banking's trained, professional staff may be able to answer your questions. You may reach one of our Consumer Services Specialists at **1.800.PA.BANKS** (800.722.2657). The phone call is free and so are our services. Sometimes just talking through your circumstances can help you understand your options. Our specialists can help you determine what your next steps might be.



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DEPARTMENT OF BANKING

**1.800.PA.BANKS**

[www.banking.state.pa.us](http://www.banking.state.pa.us)

# Home Ownership in Tough Times



**What can you do if you are struggling to pay your mortgage?**



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> protect > regulate > inform

Owning a home is part of most Americans' dreams. Home ownership builds strong communities and has historically helped families build equity as a part of long-term financial security. Unfortunately, in times of economic downturn and uncertainty, the threat of foreclosure can turn that dream into a real-life nightmare. (Foreclosure is a legal proceeding in which a mortgage lender seeks to regain possession of property from a borrower because the borrower has – for whatever reason – failed to make mortgage payments.)

No matter their financial situation, homeowners have options to help them keep their home or find a way to move out of their home without creating additional financial woes. Here are several steps you can take if you are facing foreclosure:

### Step 1 Stay in Your Home

You may not qualify for foreclosure prevention assistance if you move out.

### Step 2 Talk to Your Lender

The worst thing you can do in a financial crisis is ignore the problem. The farther you fall behind, the harder it is to get caught up. NEVER ignore letters or phone calls from your lender.

If you cannot keep up with your mortgage, call your lender right away. In most cases, your lender wants to avoid foreclosure as much as you!

Your particular situation will determine what options may be available. Your lender may be willing to temporarily reduce or suspend mortgage payments, change the loan terms to lower your monthly payment, or set up a repayment plan for any past due payments.

Make sure you keep a record of every conversation, try to get everything in writing and keep all your mortgage documents in a safe place.

### Step 3 Seek Help

Federal government programs such as HAMP (Home Affordable Modification Program) and HARP (Home Affordable Refinance Program) have been able to help some homeowners get a loan modification in order to lower their monthly mortgage payments. You can call **1.800.PA.BANKS** (800.722.2657) for more information

on these and other programs that may be available from time-to-time.

Also, a certified, local housing counselor can help you evaluate your financial situation, figure out which options are right for you and work with your lender on a solution. In addition, a counselor can also provide information on public and private programs and services for homeowners facing possible foreclosure, including government assistance programs for which you may be eligible.

Make sure your counselor is approved by the Pennsylvania Housing Finance Agency or the U.S. Department of Housing and Urban Development. Contact the agencies to find approved counselors in your area:

Pennsylvania Housing Finance Agency (PHFA)  
1.800.342.2397  
[www.phfa.org](http://www.phfa.org)

U.S. Department of Housing and Urban Development (HUD)  
1.800.569.4287  
1.800.877.8339 (TDD)  
[www.hud.gov](http://www.hud.gov)

### Step 4 Beware of Scams

Unfortunately, unscrupulous people try to take advantage of homeowners who are facing foreclosures. You may be targeted for a scam by phone, through the mail or even by a stranger showing up on your doorstep. You should:

- Never trust an offer that sounds too good to be true;
- Only take advice from sources you can trust, such as a qualified housing or credit counselor;
- Never pay a fee before receiving a service ("advance fee");
- Beware of "sale/buy back" scams, where a potential buyer of your home promises to let you rent your home and buy it back when your financial situation improves;
- Check with an attorney or your own mortgage lender before entering into an agreement;
- Sign only documents you fully understand; and
- Get all promises in writing.

If you believe you are or may become the victim of a scam or other illegal or unfair financial transaction, contact the Pennsylvania Department of Banking at **1.800.PA.BANKS** (800.722.2657) or at [www.banking.state.pa.us](http://www.banking.state.pa.us).



### Other Options

Before taking any of these actions, you should consult an attorney.

If you cannot afford to pay your mortgage and it does not appear likely you will be able to pay for the foreseeable future, you may want to consider selling your home or turning it over to your lender.

If you are able to negotiate with your lender, a "Deed in Lieu of Foreclosure" allows you to hand over the deed to your home to your lender in exchange for ending a foreclosure action and minimizing damage to your credit rating. However, you may still be responsible for a "deficiency balance," the difference between the sale proceeds and the amount of your loan. You may face serious tax implications from a Deed in Lieu.

A "short sale" is when your lender allows you to sell your home for less than you currently owe on your mortgage because your home is "under water" (worth less than currently owed on the mortgage). However, you may still be responsible for a "deficiency balance," the difference between the sale proceeds and the amount of your loan. You may face serious tax implications from a short sale.

Filing bankruptcy may halt the foreclosure process. However, changes in the law have made this more difficult for certain people.

Some homeowners choose a "strategic default" when their home is "under water." This controversial action can carry significant and sometimes unforeseen legal and tax consequences, and is not endorsed by the Department of Banking.