

## **Foreclosures: What You Need to Know**

Submitted by Richmond Association of REALTORS®

It's hard to escape the headlines – foreclosures are on the rise across the country. During the month of June, 252,363 U.S. properties were in some stage of foreclosure according to RealtyTrac.com, a website that tracks foreclosure trends in the housing market. This number amounts to one of every 501 households in foreclosure, and represents a whopping 53% increase from the number of foreclosures in June 2007. If you're a homeowner, chances are you may be concerned about the foreclosure situation, and wondering if your home is at risk. Before you panic, it is important to understand what a foreclosure is, how the process works, and what you can do to prevent one from happening.

Foreclosures occur when a lender or seller of a mortgaged property forces a sale because the borrower did not pay the mortgage in a timely manner. The process of home foreclosures and the amount of time it takes varies by state. Trustee Foreclosure Sales, which allow lenders to sell a foreclosed property without going to court, are the most common foreclosure procedures in Virginia. New legislation passed during this year's General Assembly session requires high-risk mortgage lenders or servicers to provide written notice of the intention to send a notice to accelerate the loan balance 10 business days prior to sending the notice of acceleration. If the borrower indicates the desire to avoid foreclosure, the high-risk mortgage lender or servicer shall give the borrower 30 calendar days' forbearance.

Once the 30 day period has passed, lenders must notify all parties involved and properly advertise the sale in a court-approved newspaper with sufficient circulation within the area where the property is located. Sales take place at a courthouse and the highest bidder gets the property. If no one bids, the lender wins the property and pays the starting bid. Once a sale is final, the borrower cannot get the property back. However, the sale can be cancelled if the borrower can pay what is owed to the lender.

Foreclosures can stay on a borrower's credit report for seven years, severely limiting them from obtaining future loans or credit. Homeowners who want to avoid such a damaging credit hit may attempt a short sale of their property instead. A short sale occurs when a home is sold for less money than what a borrower owes to a lender on an outstanding mortgage. The catch is that the lender has to agree to a short sale. Short sales are typically less expensive for lenders to deal with than foreclosures, and are more widely accepted when home sales are slow. But the short sale process is hardly easy. Lenders will require borrowers sign a promissory note stating that they must make up the difference between the proceeds of the sale and the amount of the original debt owed. Short sales can take months to complete, and many are not successful at all.

Although the nation's foreclosure statistics may be startling, Richmond has a relatively low rate of foreclosures compared to the rest of Virginia and the nation. In 2007, RealtyTrac listed Richmond's foreclosure rate at only 0.18% - minimal compared to rates of 4.9% in Detroit and 4.2% in Las Vegas. While that rate may increase this year, the Richmond area is still faring better than many parts of the country, including the hard-hit Northern Virginia region.

Still wondering if you could be facing foreclosure? It's unlikely, unless you have an adjustable rate mortgage that is expected to reset in the next year or two. If this is the case, find out when your rate will adjust and what your new payment will be. If the new payment is one you cannot afford, contact your lender immediately and see what options you have. It is more costly and time-consuming for a lender to foreclose on a property than it is for them to try and help you work out a solution, so don't be afraid to ask; if you wait, it may be too late.