Foreclosure Costs Everybody

Now that you have a better understanding of foreclosure procedures, it is time to consider what foreclosure costs you and your lender or its servicing agent may incur. Most of the time, homeowners make their monthly mortgage loan payments as scheduled. For various reasons, it may become impossible to timely make your mortgage loan payments. As a result, the homeowner, the lender, and the community where your home is located each lose out in a variety of ways.

What do Homeowners Lose through Foreclosure?

Example: Kent and Ellie Myers were barely able to make the monthly payments of their ARM, particularly with the unexpected increase in the payment amount after adjustment of the interest rate. The Myers knew their mortgage loan was an ARM, but expected that interest rates would remain low. Kent then suffered an injury at work, lowering the family's income. Following the injury, the Myers could not fully cover their general family and Kent's medical expenses, as well as their mortgage loan payments.

After missing a mortgage loan payment, they received a telephone call from their lender or its servicing agent. Kent and Ellie could not negotiate a modification or restructuring of their mortgage loan. The trustee recorded a NOD against the title to their home a month following contact with Kent and Ellie by their lender or its servicing agent.

What do Kent and Ellie Stand to Lose?

The most visible impact of foreclosure is the loss of Kent's and Ellie's home and any equity in the home. Following the foreclosure sale, the Myers will likely be required to move out of their home (an eviction) and find a new place to live.

Foreclosures Carry Significant Financial Impact for Homeowners

The significant impacts for homeowners include the loss of Down Payment, Mortgage Loan Payments, and of the Equity in the home.

Through foreclosure, homeowners lose the down payment made at the time of purchase and the mortgage loan payments they made during the ownership of their home. Homeowners also lose the amount of any appreciation in market value that may have occurred since they purchased their home.

Prior mortgage loan payments, property taxes, insurance premiums, and monies spent on home maintenance are not entirely lost. Some of these payments were deductible on income tax returns, and the payments represent consideration for the occupancy of the home (even though the collective payments are often in excess of the market rent for your home for the same period).

When homeowners lose their home, future growth and equity will also be lost as home values typically increase over time.

The Myers' Credit Rating

The Myers' credit reports will reflect the foreclosure sale. Foreclosures will lower credit scores, damaging the Myers' credit rating. Many lenders will not extend credit to homeowners within five, or as long as seven years following a foreclosure sale. For example, FHA will generally not insure a new mortgage loan for three years following a foreclosure sale reported as part of the homeowner's credit record. A "foreclosed on" homeowner may not be able to obtain another mortgage loan for several years.