

Defaulting on Your Mortgage Has Costly Consequences



If you don't pay your mortgage on time or if your payment is for less than the amount that's due, you're in default on your loan. The consequences of default can be costly.

The Federal Trade Commission (FTC), the nation's consumer protection agency, says it's important to understand the costs of default. The agency also stresses that if you're having trouble making your mortgage payments, contact your loan servicer to discuss your options as soon as you can. The longer you wait to call, the fewer options you have.

What happens if I default on my mortgage?

Defaulting on your mortgage can add the cost of various fees to the amount you already owe. It also can damage your credit score. Ultimately, it can lead to you losing your home.

Late Fees. If your payment is late, you may be charged a late fee. Late fees can add hundreds of dollars to your mortgage bill.

Default-Related Fees. Your mortgage servicer is the company that manages your mortgage loan account. If you're in default, your servicer may charge you for "default-related services," which can add hundreds or thousands of dollars to your loan over time.

Facts for Consumers

Default-related services can include:

- *Property inspections* to make sure you are living in the home and maintaining the property.
- *Property preservation services*, including lawn mowing, landscaping and repairing or boarding up broken windows and doors.
- *Foreclosure costs*, which may include attorneys fees, property title search fees and charges for mailing and posting foreclosure notices.

Damage to Your Credit Score. Mortgage servicers provide information about your payment history to credit reporting companies, including whether you've been late with a payment or missed any payments. Even one late payment lowers your credit score, which affects whether you can get a loan in the future – and what your interest rate will be.

Foreclosure. If you are in default, your servicer may start the foreclosure process. Not only will this add to the costs you will have to pay to bring your account current, but the foreclosure filing will be a matter of public record. This will make it tougher for you to get credit and buy another home in the future. If you aren't able to bring your loan current or work out another solution, your home could be sold at a foreclosure auction. In many states, you also may be responsible for paying a "deficiency judgment." That's the difference between what you owe and the price the home sells for at the foreclosure auction.

What should I do?

Pay close attention to your mortgage loan account. Review your account regularly to make sure your payments are credited on time and that there aren't any unexpected or unusual fees or charges. If you don't get monthly statements,

check with your servicer to see if you can access your account online. Be assertive. Question any items you don't understand and keep good records of communications with your servicer. Among the items to monitor:

- **Posting of Payments.** Keep a record of the amount you pay and when. If you have made a full payment, your loan servicer must credit that payment to your loan account as of the day it is received. If you make a partial payment, the servicer is not required to credit the payment to your account. The servicer might return your payment to you or put it into a "suspense" or "hold" account: the payment sits in limbo until you provide the funds to equal a full payment.
- **Improper Late Fees.** Most mortgage contracts include a "grace period" – the time you have to pay your mortgage without incurring a late fee. If you make your payment during the grace period, there shouldn't be a late fee. The day your servicer gets your payment is the day that counts, not the day you send it.
- **Too Many Late Fees.** You should be charged a late fee only if you don't make a mortgage payment in full and on time. Some servicers have charged borrowers late fees on payments that were made in full and on time because the borrower didn't include a payment for a previously unpaid late charge. This practice is called late charge "pyramiding," and it's against the law.
- **Default-Related Fees.** Review your account for default-related fees. Make sure you understand what they're for and why you've been charged. If mystery fees appear on your statement under headings like "other fees" or "corporate advances," contact your servicer for an explanation.

- **Escrow Account.** If you have an escrow account with your mortgage for payment of real estate taxes and homeowner's insurance, review your annual escrow account statement. Make sure the amount for taxes and insurance on the statement are correct and that your tax and insurance payments have been made on time. If you have an escrow account, your monthly mortgage payment will increase if the amount you owe for taxes or insurance increases. If the escrow amount is short, adjust your monthly payments to cover it.
- **Bankruptcy Servicing.** Some borrowers choose to file a Chapter 13 bankruptcy to stop foreclosure and stay in their homes. In Chapter 13, the court generally approves a repayment plan that allows you to pay your debts over three to five years. Your bankruptcy plan may include your past due mortgage payments, but it does not affect your obligation to make your current mortgage payments. You must continue to make those payments in full and on time or you may be in default. If default happens, you could be charged late fees and default-related fees, and the loan servicer may ask the court for permission to foreclose on your home.



It is important to continue to monitor your mortgage account, even during bankruptcy. Make sure your payments are credited properly and on time. Watch for any inappropriate late charges or fees, and keep an eye on your escrow account.

Where can I get help?

If you are struggling to make your mortgage payments or you're in default, contact your mortgage servicer right away. Many people find it embarrassing to talk with their servicer about payment problems, or they're hopeful that their financial situation will improve and they'll be able to catch up on payments. Keeping the lines of communication open is critical to resolving issues with your loan. Options to help you bring your mortgage loan current and save your home from foreclosure include loan modifications, repayment plans, or a temporary reduction or suspension of payments. If you're not eligible for any of these options, your servicer may be able to help you find a solution other than foreclosure, like a short sale or a voluntary transfer of the property through a "deed in lieu of foreclosure."

Staying in touch with your servicer also could save you money and make it easier to bring your mortgage loan current. For example, although servicers have different policies about when they will order default-related services, some may not order property inspections or property preservation work if you let them know each month that you are still living in the home and maintaining the property. They also are more likely to delay a foreclosure sale if they are working with you to find a better solution.

Facts for Consumers

If you are having a hard time reaching or working with your loan servicer, talk to a certified housing counselor. Call 1-888-995-HOPE for free personalized guidance from housing counseling agencies certified by the U.S. Department of Housing and Urban Development (HUD). This national hotline – open 24/7 – is operated by the Homeownership Preservation Foundation, a nonprofit member of the HOPE NOW Alliance of mortgage industry members and HUD-certified counseling agencies. For free guidance online, visit www.hopenow.com.

To learn about the President's plan to help homeowners, visit www.makinghomeaffordable.gov.

For More Information

The FTC also has free information about dealing with mortgages and debt. Visit ftc.gov/yourhome to read the following publications:

Mortgage Servicing: Making Sure Your Payments Count

Mortgage Payments Sending You Reeling? Here's What to Do

Foreclosure Rescue Scams: Another Potential Stress for Homeowners in Distress

The FTC works to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261.

Watch a new video, *How to File a Complaint*, at ftc.gov/video to learn more. The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

FEDERAL TRADE COMMISSION	ftc.gov
1-877-FTC-HELP	FOR THE CONSUMER

Federal Trade Commission
Bureau of Consumer Protection
Division of Consumer and Business Education