



## UNIT 8 – Overview

### Foreclosure

---

Despite all of the hope, optimism and faith in the future, sometimes even the best of plans do not work out. This is the unfortunate case for millions of Americans, especially those who did their best to weather the recent subprime mortgage crisis. Nobody ever thinks about losing their family home, but it can happen and so it makes sense to know more about it and to take every possible step to avoid it.

Plan A, of course, was to stay healthy, earn a decent income, pay all the bills on time, keep up with the mortgage, and eventually retire the mortgage. Then if everything works out as planned, you will be able to enter your retirement years with the house paid off and enjoy life like you always thought you would. Life doesn't always unfold as planned, however, and some people have tragically reached the point of **foreclosure**, a formal legal procedure in which the lender seeks to regain property pledged as collateral against the mortgage because the borrower has defaulted on payments.

Hopefully this will never happen to you, but to borrow a popular sports expression, one of the best defenses is to have a good offense. In other words, be proactive, learn to recognize the early warning signs of foreclosure, and take every possible step to avoid it if you can.

And if you ever find yourself in foreclosure, there are still some things that you can do. However, like most problems in life it's generally easier to avoid them in the first place than to have to deal with them later. If all else fails you may have to go to Plan B, but let's see if it's possible to avoid it in the first place.

#### Unit Objectives

- Recognize the warning signs of foreclosure
- Explain how to analyze your budget situation



- Identify steps to take when falling behind on mortgage payments
- Identify and understand various consumer foreclosure schemes

### Key Concepts:

- **Foreclosure:** a formal legal procedure in which the lender seeks to regain property pledged as collateral against a mortgage because the borrower has defaulted on payments.
- **Equity:** Residual value after all of the obligations and fees are subtracted from the proceeds of the sale.
- **Balloon payment:** A requirement for a single lump sum payment that would fully pay off the remaining principle in a set number of years.
- **Phishing:** An internet technique used to trick people into revealing their personal financial and other information to an unauthorized party for purposes of identity theft.

