Community Concerns . . . from
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Foreclosure Crisis: Lost Homes; Tough Times

The current foreclosure crisis is affecting the entire housing market. There is a misconception that only people in the lower to middle-income bracket who can't pay their bills have their home foreclosed upon. The reality is that there is a very diverse group of properties and homeowners that face foreclosure every day of the year. Some are because the homeowner lost their job and fell behind on their mortgage; however, the unemployed also includes executives that were once making six figures and are now left with a staggering monthly mortgage and no income. Others are the result of factors such as divorce and death. Still others are a result of unexpected expense, such as medical bills, that took priority over a homeowner's mortgage payment. The bottom line is that there are countless reasons that a property will enter foreclosure and the demographics of those homeowners can vary greatly.

It is predicted that 6.5 million Americans will lose their homes to foreclosure in the next five years. Inadequate regulatory oversight and risky lending practices allowed unscrupulous and aggressive brokers and lenders to sell loans that simply were not sustainable. Regardless of who's to blame, this crisis affects everyone: hard-working families who are losing their homes, investors, Wall Street firms, lenders, and local governments who lose up to $30,000 in taxes and costs when a home is foreclosed. Foreclosures lower neighborhood property values, which decreases funding for cash-strapped cities and counties already struggling to maintain essential public services.

The foreclosure process.
A foreclosure is a process that begins when a homeowner defaults on their mortgage by failing to pay his or her monthly payments on time. The process can end in a variety of ways, which include the homeowner finally getting current on his or her loan, selling the house in a short sale or being forced to vacate the premises and forfeit title. A Wisconsin foreclosure begins when the lender files the appropriate documents with the court. The lender must deliver a notice of the court filing to the borrower and other parties with an interest in the property, in order for a lender to obtain a foreclosure ruling from the court. The court may order in its ruling that all sums paid by the lender for insurance, repairs, and taxes be added to the amount owed.

The lender warns the borrower that it intends to obtain a foreclosure ruling from the court based on the terms of the mortgage. The lender provides the borrower with a reinstatement period, which lists the amount of shortage owed and the final date it is due. If the borrower pays off the reinstatement amount by the listed date, the foreclosure process stops. If not, they head to court. Once a court has issued a judgment of foreclosure, the borrower is advised of his or her redemption period, which is the time between the court-ordered foreclosure and the actual Sheriff's Sale, and may redeem the property (pay off the entire loan and fees so they can keep the property) any time up until the sale. The redemption period is 6 months if the lender waives its right to sue for a deficiency judgment, which is the difference between the total amount owed to the lender at the time of foreclosure and what the lender actually gets back when it sells the house. The redemption period is 12 months if the lender plans to sue for a deficiency. There is a reduced redemption period of 2 months if the property is abandoned.

In addition to the emotional roller coaster ride the foreclosure process brings, there are also credit and tax implications. Foreclosure will negatively affect your credit, and it will remain on your credit report for 7 years. It will be harder to get a loan or credit card during that time, and if you can get one, the interest rate and terms are likely to be undesirable. Generally, the IRS considers any cancelled or forgiven debt as income, so there may be tax ramifications from a foreclosure, deed in lieu (turning the deed over to the lender) or short sale (selling the house for less than is owed with permission by the lender).

Foreclosure filings of all kinds, including notices of defaults, notices of auctions and bank repossessions continues to rise. Locally there has been an increase from 2007 to 2008.

County	**Number of foreclosure filings in 2007. Some of these may have been cancelled or rescheduled.**	**Number of foreclosures in 2008. Reporting dates vary by county.**
Crawford	27 foreclosures scheduled.	30 scheduled through November 6, 2008.
La Crosse	129 foreclosures scheduled.	145 scheduled. 119 have been held, 26 are coming up, and at least 70 have been cancelled or adjourned.
Monroe	127 foreclosures scheduled.	173 scheduled through November 10, 2008.
Vernon	29 foreclosures scheduled.	35 scheduled for entire year. 3 already scheduled for 2009.

We all have a vested interest in cleaning up the system and preserving homeownership. Financial literacy and counseling programs can assist homeowners to avoid foreclosures by working with borrowers and negotiating with lenders to modify unaffordable loans. One of the most immediate solutions is loan modification. Lenders must work with borrowers to aggressively modify their loans to affordable rates, and to refinance borrowers into more fair loans where appropriate. The most objectionable practices should be banned: prepayment penalties which trap borrowers in unaffordable loans; unsuitable loans that borrowers cannot afford to repay; extra payments that lenders make to brokers for sticking borrowers with higher interest rate loans; and loans that do not require proof of actual income. Loan documents should be written in clear and concise language so consumers fully understand what they are signing. These documents should be translated into the language in which the loan was negotiated so non-English speaking borrowers are not duped into signing an agreement that differs from what they were promised verbally.

Financial bailout provisions. On October 3, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (often referred to as the "bailout" or "rescue" bill) aimed at providing stability to and preventing disruption of the economy and financial system, and protecting taxpayers. The Act creates a new Troubled Assets Relief Program (TARP), which authorizes the federal government to purchase "troubled assets" (which includes residential and commercial mortgages, and securities, obligations, or other instruments that are based on or related to such mortgages) from financial institutions either directly or through auctions.

Extension of mortgage forgiveness exclusion: the tax code generally treats cancelled debt as taxable income. The Mortgage Forgiveness Debt Relief Act of 2007 excluded from gross income discharges of up to $2 million of indebtedness ($1 million if married filing separately) secured by a principal residence and incurred in the acquisition, construction or substantial improvement of the residence. The Act extends this exclusion from December 31, 2009 to December 31, 2012.

What to do if you are facing foreclosure?

- Contact your lender immediately to discuss your circumstances, and ask them to send you a hardship packet, which you should complete and return. Always document your call to your lender - write down who you spoke to and when.
- Do not ignore the problem. Open and respond to all correspondence from your lender.
- Ask to speak to someone in the lender's Loss Mitigation Department. Your lender would most likely prefer to prevent foreclosing on your home if possible.
- Be sure to read your mortgage paperwork so that you will know what your rights are.
- Seek independent counseling. The U.S. Department of Housing and Urban Development (HUD) keeps a state by state list of certified counselors on its website.
- Talk to a lawyer to make sure that you do not make any uninformed decisions.
- Avoid foreclosure rescue scams.

The Homeowner's HOPE hotline, 1-888-995-HOPE (4673) helps individuals and families who are struggling financially. Homeowners receive advice, assistance, and support to help them stay in their homes. Couleecap is a proud partner with the HOPE hotline, believing that the strength of a neighborhood comes from the strength of its neighbors such as community action agencies like Couleecap.

Couleecap, Inc. is a private, non-profit 501(c)3 charitable organization created in 1966. Our mission is to fight poverty and promote self-sufficiency for people in the Coulee Region. Our four-county service area includes Crawford, La Crosse, Monroe, and Vernon counties in Wisconsin. For more than 42 years, we have been helping low-income people build on their strengths and become more self-sufficient. We currently operate over 40 programs in the areas of housing, family and youth services, and emergency services. Each year, Couleecap helps more than 10,000 people work towards self-sufficiency. To make a donation to Couleecap's People Helping People Initiative, which provides funds to low-income households in need, contact Couleecap's Development Coordinator, Kadie Brueggen, at 608-634-7363 or Kadie.Brueggen@couleecap.org, or go to www.couleecap.org.

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Crawford, La Crosse, Monroe, and Vernon County Sheriff's Departments and/or Register of Deeds
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Reality Trac, Wisconsin Foreclosure Laws www.realtytrac.com
Retirement Weekly, A Service of Market Watch www.marketwatch.com

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