



BANKRUPTCY is bad. FORECLOSURE is worse.

Although it is preferable to avoid bankruptcy, it is even better to avoid foreclosure. Foreclosure is the legal process whereby property is repossessed and sold at auction to cover the costs of an unpaid debt. This is usually the result of a homeowner defaulting on mortgage or loan repayments. The most common causes of foreclosure are divorce, loss of employment or a death in the family.

Every year, around one million homes across the US are sold as foreclosures by banks and private mortgage institutions. Some government departments can also repossess property to cover the costs of outstanding taxes and other debts. Large numbers of homes are repossessed and sold on every year by the US Department of Housing and Development (HUD), the Internal Revenue Service (IRS), the Department of Veterans Affairs (VA) and US Customs.

As well as costing people their homes, foreclosure can have a devastating effect on personal credit. People who have lost property as a result of foreclosure will struggle to obtain loans or mortgages and may even fail simple credit-checks for home rental agreements. It is a very bad situation to be in. Most financial advisors advise homeowners to do everything within their power to avoid going into foreclosure.

For those unlucky enough to default on their mortgage repayments, foreclosure can be a drawn out and traumatic affair. Once a loan secured on a property goes into default for more than three months, the lender can start trying to sell the property to recover the outstanding debt. The selling process typically takes 12 to 18 months from the date when the notice of default was filed.

While foreclosure is a financial disaster for some people, for others, it's a chance to buy cheap property, as foreclosures can provide lucrative investment opportunities for home-buyers and investors. Houses auctioned as a result of foreclosures often sell for well below the market rate and provide bargains for investors. However, full payment is required up front and property is sold 'as is', with no guarantees or insurance.

PREVENTING FORECLOSURE

The best way to avoid foreclosure is to stay on top of your mortgage and loan repayments, but there are several other steps you can take to protect your home and credit rating.

1. Don't default on repayments - if you make your loan or mortgage repayments on time and in full, the bank will have no reason to start foreclosure proceedings.
2. Protect your credit rating - when it comes to big purchases like buying a home, your credit rating is the most valuable thing you own. Try to minimize borrowing and make prompt payments on all your bills.
3. Avoid debt - remember, credit is never free money. Try to live within your means and only use credit if you are sure that you can meet the repayments.
4. Stay on the right side of your lender - make payments on time and reply promptly to letters and phone calls. Lenders are more likely to be flexible with people who demonstrate a mature and responsible attitude to loans.
5. Save money for emergencies - set aside some money every week for an emergency fund and only dip into it if there is a real emergency.
6. Establish a home equity line of credit - when you purchase your home, arrange a home equity line of credit for use in an emergency.
7. Consider job-loss or mortgage life insurance - for an additional monthly premium, you can obtain cover that guarantees your mortgage payments if you lose your job or pass away unexpectedly.
8. Know your rights - read up on the rules and regulations governing credit and foreclosure. If you know your rights, you stand a much better chance of keeping your home if you do go into arrears.
9. Beware of scams - there are plenty of people out there waiting to make money from foreclosures and not all are legitimate. Be wary of buyers who offer to buy out your mortgage or private counseling firms who charge for things that you can do for free yourself.
10. Brush up on bankruptcy law - if your business fails, you may be able to file a Chapter 13 notice of bankruptcy, which can protect you from foreclosure.