# Your Next Move

## Life After Foreclosure

Going through a foreclosure can be extremely stressful and difficult. You can, however, take advantage of this opportunity to make a fresh start with your personal finances. This booklet is designed to provide you the necessary tools to get on top – and stay on top – of your finances.

HOUSING EDUCATION PROGRAM

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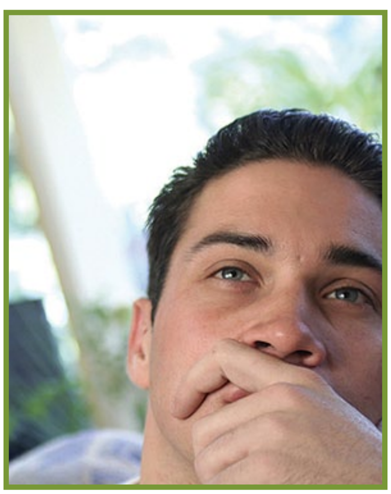
## Housing


Most people become renters after experiencing a foreclosure – purchasing another house right away is usually not feasible. However, since a foreclosure appears on your credit report and most landlords check credit reports, finding a rental is not always a piece of cake either. The best thing to do is be honest and up-front with potential landlords. Explain why you were unable to keep up with your mortgage payments, and why paying your rent won't be a problem (e.g., your mortgage payment increased and the rent is much lower, you were out of work for six months but have a job now). If you have a positive payment history for other bills, such as a car loan or utilities, mention it. Offering a higher security deposit, if you have the cash, or a co-signer with a positive credit history can also help. (They don't have to live with you – just sign the lease, which makes them on the hook for rent payments if you don't pay. Of course, you'll need to find someone who is willing to be a co-signer.) Individual landlords are often more flexible and willing to overlook a foreclosure than a management company running a large apartment complex.

What if you have to move out before you can find a new place to live? You may have friends or family you can stay with temporarily, but if that is not an option, investigate what emergency/transitional housing is available in your community. You can contact your local information line (in many locations, you can get a directory of social services by dialing 211 or 311) or HUD (US Department of Housing and Urban Development) at 800-955-2232 or www.hud.gov/homeless/hmlsagen.cfm.

You may not be able to buy a new house tomorrow, but if you want to be a homeowner again in the future, it is possible. Typically, you will need to wait several years after a foreclosure to qualify for a new mortgage. In the meantime, it is a good idea to work on improving your credit score and paying down your debt (discussed more later) – regardless of whether or not you had a foreclosure in your past, it is generally easier to get a mortgage if you have a good credit score and low debt load.

## Deficiency Balance



The deficiency balance is the difference between the balance remaining on your mortgage and what the lender is able to get for the property. So if you owed $325,000 on your mortgage and the house sold for $200,000, you would have a deficiency balance of $125,000. Whether or not you are responsible for paying the deficiency balance depends on what state you live in. However, even in states with anti-deficiency balance laws, you may only be protected if the home was your primary residence and the mortgage was used to build or purchase the home.

If the lender is allowed to collect the deficiency balance, it is possible that you will be sued and your wages garnished. You can apply for a hardship exemption to stop garnishment, although this can be difficult to get. Filing for bankruptcy is another way to stop garnishment, but it will further damage your credit report. It is also possible that the lender may be willing to set up a payment plan or forgive the deficiency balance. In general, the IRS considers forgiven debt income, and requires you to pay taxes on it. However, under the Mortgage Forgiveness Debt Relief Act, you do not have to pay taxes on a forgiven deficiency balance if the home was your primary residence and the mortgage was used to build, purchase, or improve the home. (Refinanced mortgages are covered to the extent of the balance on the original mortgage at the time of the refinance.)

## Budgeting

Few people want to struggle to meet their monthly obligations. So what you do to make bill-paying easier in the future? Regardless of whether you are a millionaire or making minimum wage, the foundation of financial success is the same – budgeting. Budgeting means analyzing what you have coming in, then developing a reasonable and goal-oriented plan for what goes out. Essentially, a budget is a tool that can help you make the most of your money.

Use the Budget Worksheet to list your income and expenses. If you don't know exactly to the penny what you are spending on groceries, clothing, or other items, don't fret. Just put down your best estimate for now. By tracking your expenses for a period of time (you can use the Tracking Worksheets or a computer spreadsheet), you can – and should – create a more accurate budget in the future. Don't forget to include debt payments and savings. For periodic expenses, such as vacation, determine the annual amount and divide by twelve.

➡ Find the Budget Worksheet on pages 7–9 and the Tracking Worksheets on pages 10–11

Though no two budgets are alike, there is a common rule: expenses should never exceed income. If you are currently spending more than you are earning, think about ways you can increase your income and/or reduce your expenses. Can you get a part-time job? Cut back on dining out? Skip the daily $4 mocha latte? Get a cheaper cable package or cut your land-line phone? Increasing income can be difficult, but most people have some expenses they can trim. Honestly assess what is a necessity and what isn't. List the changes in the proposed column of the budget worksheet.

Your budget is only helpful if you follow it. Tracking your expenses on an on-going basis can help you recognize when you should stop spending because you have reached your limit in a particular category. However, if you overspend once in a while, try not to get discouraged. No one is perfect. If it happens often, you may need to adjust your budget so that it is more realistic. For example, perhaps you can't keep your food costs at $150 a month, but you can cut back on your clothing purchases.

## Savings

You probably don't want to think about the troubles that could occur in the future, but unfortunately, bad things can happen to good people – more than once. Should you be hiding under the covers, shaking in fear? No. But it is a good idea to do what you can to prepare.

One of the best things you can do to prepare for the unexpected is to save. With savings, you don't have to put car repairs or medical bills on your credit card or worry about how you will pay your rent or electric bill if you lose your job. Financial experts recommend establishing emergency savings of at least three to six months worth of essential living expenses. If you do not already have that amount, determine how much you can set aside each paycheck until you reach your goal. Since you don't know when you will need the money, make sure that it is put in an account that is easily accessible and where there are no penalties for early withdrawal. A savings account is usually a good choice.
Set yourself up for success by making saving an automatic process. If you have direct deposit through work, you should be able to have a portion of your paycheck deposited into your savings account. If not, many financial institutions allow you to set up a periodic automatic transfer of funds from your checking account to your savings account.

## Credit

All of your credit activity is tracked by your credit report. It includes the payment history and balances owed on credit and store cards, personal loans, student loans, car loans, and mortgages as well as credit-related legal activity, such as foreclosures, repossessions, evictions, judgments, and bankruptcies. Your credit score is a numeric rating of the information in your credit report and is designed to measure the risk you won't repay what you borrow. Having a good report and score makes it easier to obtain credit, rent an apartment, and even get low rates on insurance.

Experiencing a foreclosure severely damages your credit report and score. However, the damage does not have to be permanent – there are many things you can do to improve your report and score in the future:

- **Pay on time, every time** – Do you have credit cards, car or student loans, or other debt? A commitment to always pay on time is one of the most powerful steps you can take to improve your credit rating.

- **Pay down your debt** – Having a large debt load will lower your score. If you have balances on credit cards or loans, explore ways you can lower your interest rates and free up cash to make more than the minimum payments. Try to avoid charging more on your credit cards than you can pay off in full the next month.

- **Dispute errors** – Many credit reports contain mistakes. Perhaps someone else's collection account appears on your report, or you were marked late on a credit card you always pay on time. That is why it is a good idea to periodically review your credit report from each of three credit bureaus: Equifax, Experian, and TransUnion. You can get a free copy of your credit report annually from the Annual Credit Report Request Service (www.annualcreditreport.com, 877-322-8228). If you see any errors, contact the relevant credit bureau and dispute them.

- **Be patient** – Most negative information, including a foreclosure, can stay on your credit report for seven years. The more recent the information, the more of an impact it has on your credit score, so over time, the foreclosure will become less significant.

- **Get credit** – In order to have a good credit score, you need to have some sort of credit and use it responsibly. If you have no credit now, you may want to apply for a credit card. For people with a low credit score, a secured credit card (which requires you to put down a deposit that the creditor gets to keep if you do not make payments) is generally easier to get than a regular credit card. The credit limit is usually low, and the fees can be high, but many creditors are willing to convert a secured credit card to a regular credit card after a year or two of on-time payments. Another option is to ask a friend or family member who has a good credit history to cosign for you.


## Debt

Many people let other debts fall to the wayside when they are struggling to pay their mortgage or use credit to help keep them afloat. It is perfectly understandable if your credit cards were not the first thing on your mind when you were facing the prospect of losing your home. However, after experiencing foreclosure, you may be in a better position to tackle your debt.

The first step is to establish an accurate inventory of who and how much you owe. If you have a stack of unopened bills on your kitchen table, take a deep breath and open them. If you don't have recent statements, call your creditors and ask them for up-to-date account information. You can list your debts in the Debt Worksheet.

➡ Find the Debt Worksheet on page 12

Next, create a plan of attack. You may want to vary your approach depending on the status of the account.

**Accounts in good standing**
If you have accounts that you were able to keep current, they don't require any urgent action. However, keep in mind that if you owe a significant amount and only pay the minimum required payments, it could be years before you are debt free.

One way to accelerate debt repayment is to pay more than the minimum. You should only do this if you are comfortably meeting your all of your debt and other obligations. If you have multiple accounts, it is better to be systematic and focus your extra payments on one creditor at a time instead of sending a little extra to everyone. Many people like to start with the debt with the lowest balance because it can be paid off the soonest, providing a sense of accomplishment that makes it easier to keep going. However, you will save the most money by starting with the debt with the highest interest rate. Once the first debt is paid off, put that money toward the debt with next lowest balance or highest interest rate (depending on the option you choose) and so and so on until all of the debts are paid off.

Debt repayment can also be accelerated by finding ways to lower your interest rates. Want to know a simple way to get a lower rate? Just call your creditors and ask. They may say no, but it only takes up a few minutes of your time. Another option is a debt management plan, in which many creditors give you a lower rate in exchange for closing your accounts and going through counseling. Debt management plans are offered by credit counseling agencies, such as CCCS. Avoid using a debt settlement agency – it is not the same thing. Debt settlement agencies typically charge high fees and wait for your accounts to become severely delinquent before offering settlements.

**Delinquent accounts (not with a collection agency)**
It is a good idea to tackle any account you are delinquent on right away. If you fall far enough behind, it is possible it will be charged off and sent to a collection agency, which will severely damage your credit report. (This typically happens after 4-6 months of non-payment).

When you fall behind, usually the payments you miss are added to your minimum required payment. You may be wondering how you can catch up if your creditor is expecting $1,000. Keep in mind that the payment listed on your statement is not necessarily the only option. Most creditors want you to pay your bills and are willing to work with you. Give them a call and ask if it is possible to pay the back amount over a few months. You can also see if they are willing to settle the debt for less than the amount owed. Typically, when you settle, you must pay the amount all at once or within a short period of time, so it is more practical for smaller debts than larger ones.
When dealing with a creditor, if you don't succeed at first, don't give up. Ask to speak to a supervisor. Call back at another time. Send a letter. (Make sure to send it to the address for billing inquiries and concerns, not the payment address.) Ultimately, the creditor may not agree to anything, but at least you will know that you tried your best.

**Collection accounts**
Once an account goes to a collection agency, the damage to your credit report has already been done. Paying off collection accounts shouldn't be your number one priority, but it is not a good idea to permanently neglect them either. You probably don't want to be worried about bill collectors breathing down your neck, and you could be sued for not paying a debt.

Collection agencies are usually very willing to settle debts for a fraction of the amount owed. You should always get a settlement agreement in writing before sending a payment. Although they are not required to do so, as part of the settlement agreement, you can ask them to remove the collection account from your credit report. At the very least, they are required to report that the account was paid. Check your credit report a month or two after settling to make sure they did. (If not, you can submit proof of payment to the credit bureau.)

Most collection agencies will also accept monthly payments. Even if they say they won't over the phone, chances are, they'll cash your check instead of throwing it in the trash. Since you may not receive statements from a collection agency, it is very important to keep your canceled checks or other proof of the payments you made. Keep in mind that while sending monthly payments may be enough to satisfy them, it is possible to be sued as long as you have an outstanding balance and the statute of limitations has not expired. (The statute of limitations is the amount of time that a creditor has to pursue legal action against you to collect a debt. It varies from state to state.)

Losing your home may be one of the most difficult things you experience in your life, but remember, you can rebuild – there is life after foreclosure.

# Budget Worksheet

**Monthly Income.** Enter your gross and net (after taxes) income from all sources. For income received infrequently, such as bonuses or tax returns, calculate the annual income, then divide by 12 to find the monthly amount.

| Source | Gross | Net |
|---|---|---|
| Job | | |
| Spouse's job | | |
| Part-time job | | |
| Rental/room & board received | | |
| Commissions/bonuses | | |
| Tax refunds | | |
| Investment income | | |
| Government benefits | | |
| Unemployment insurance | | |
| Child support/alimony | | |
| Support from family/friends | | |
| Other | | |
| **Total** | | |

**Monthly Expenses.** Since many expenses are variable, such as utilities and groceries, it is important to average these expenses. Other expenses are periodic (such as insurance or vehicle registration). Again, calculate the annual amount and divide by 12.

| Category | Expense | Monthly Average | Monthly Goal |
|---|---|---|---|
| HOUSING | Rent/Mortgage | | |
| | 2nd Mortgage/Equity Line | | |
| | Homeowner's/Renter's Insurance | | |
| | Condo Fees/HOA Dues | | |
| | Home Maintenance | | |
| | Gas/Electric | | |
| | Water/Sewer/Garbage | | |
| | Telephone | | |
| FOOD | Groceries/Household Items | | |
| | At Work/School | | |
| INSURANCE (Exclude payroll deducted amounts) | Health/Dental/Vision | | |
| | Life/Disability | | |
| MEDICAL CARE (Exclude payroll deducted amounts) | Doctor/Chiropractor | | |
| | Optometrist/Lenses | | |
| | Dentist/Orthodontist | | |
| | Prescriptions | | |
| TRANSPORTATION (Exclude payroll deducted amounts) | Car Payment #1 | | |
| | Car Payment #2 | | |
| | Auto Insurance | | |
| | Registration | | |
| | Gasoline/Oil | | |
| | Maintenance/Repairs | | |
| | Public Transportation/Tolls/Parking | | |
| CHILD CARE (Exclude payroll deducted amounts) | Daycare | | |
| | Child Support/Alimony | | |
| SAVINGS | Emergency | | |
| | Goals | | |
| INCOME TAXES | Prior Year | | |
| | Estimated Tax Payments (Self-Employed) | | |

| Category | Expense | Monthly Average | Monthly Goal |
|---|---|---|---|
| UNSECURED DEBT | Loan payment | | |
| | Credit Card #1 | | |
| | Credit Card #2 | | |
| PERSONAL | Beauty/Barber | | |
| | Clothing/Jewelry | | |
| | Cosmetics/Manicure | | |
| ENTERTAINMENT | Cable/Satellite | | |
| | Movies/Concerts/Theater | | |
| | Books/Magazines | | |
| | CD/Tapes/Videos/DVD | | |
| | Dining Out | | |
| | Sports/Hobbies | | |
| | Vacation/Travel | | |
| MISCELLANEOUS | Banking Fees | | |
| | Laundry | | |
| | Union Dues | | |
| | Internet Service | | |
| | Pet Care | | |
| | Gifts for Holidays/Birthdays | | |
| | Cell Phone/Pager | | |
| | Postage | | |
| | Cigarettes/Alcohol | | |
| | Contributions to Church/Charity | | |
| | Other | | |
| | Other | | |
| | Other | | |
| **Totals** (include totals from previous page) | | | |

**Bottom Line.** Once you have determined the total of your take-home pay and expenses you are ready to determine your bottom line. Subtract the total of all expenses including debt payments from your net income. If the result is a positive number, you can add the extra money to your savings to reach your goals sooner. If your expenses exceed your income, you'll need to make some adjustments to bring your finances back into balance.

| Total Monthly Income | Total Expenses | Balance |
|---|---|---|
| | – | = |

# Weekly Expense Tracking Worksheet

If you don't know where your money is going, it's time to start tracking your spending. Different methods of tracking work for different people – some like to save receipts while others prefer to jot down all purchases in a small notebook they carry with them. Remember, tracking is only effective if you count every expense, including the morning newspaper and the change you put in the office vending machine. Use the sheets on the next two pages to record weekly and monthly spending totals.

| Item | Mon | Tue | Wed | Thu | Fri | Sat | Sun | Total Expenses | Weekly Budget | Over / Under |
|---|---|---|---|---|---|---|---|---|---|---|
| Groceries | | | | | | | | | | |
| Restaurants | | | | | | | | | | |
| Laundry/Dry Cleaning | | | | | | | | | | |
| Medical/Dental | | | | | | | | | | |
| Auto/Gas/Parking | | | | | | | | | | |
| Other Transportation | | | | | | | | | | |
| Child Care | | | | | | | | | | |
| Personal Care | | | | | | | | | | |
| Clothing | | | | | | | | | | |
| Bank Fees/Postage | | | | | | | | | | |
| Entertainment | | | | | | | | | | |
| Books/Music/Video | | | | | | | | | | |
| Cigarettes/Alcohol | | | | | | | | | | |
| Gifts/Cards | | | | | | | | | | |
| Home/Garden | | | | | | | | | | |
| Church/Charity | | | | | | | | | | |
| Savings | | | | | | | | | | |
| Other | | | | | | | | | | |
| Other | | | | | | | | | | |
| Other | | | | | | | | | | |
| **Weekly Totals** | | | | | | | | | | |

# Monthly Expense Tracking Worksheet

| Item | Week 1 | Week 2 | Week 3 | Week 4 | Week 5 | Total Expenses | Monthly Budget | Over / Under |
|---|---|---|---|---|---|---|---|---|
| Groceries | | | | | | | | |
| Restaurants | | | | | | | | |
| Laundry/Dry Cleaning | | | | | | | | |
| Medical/Dental | | | | | | | | |
| Auto/Gas/Parking | | | | | | | | |
| Other Transportation | | | | | | | | |
| Child Care | | | | | | | | |
| Personal Care | | | | | | | | |
| Clothing | | | | | | | | |
| Bank Fees/Postage | | | | | | | | |
| Entertainment | | | | | | | | |
| Books/Music/Video | | | | | | | | |
| Cigarettes/Alcohol | | | | | | | | |
| Gifts/Cards | | | | | | | | |
| Home/Garden | | | | | | | | |
| Church/Charity | | | | | | | | |
| Savings | | | | | | | | |
| Other | | | | | | | | |
| Other | | | | | | | | |
| Other | | | | | | | | |
| **Monthly Totals** | | | | | | | | |

# Debt Worksheet

| Creditor | Balance | Monthly Payment |
|---|---|---|
| 1 | | |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |
| 6 | | |
| 7 | | |
| 8 | | |
| 9 | | |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 18 | | |
| 20 | | |
| **Total** | | |



HOUSING EDUCATION PROGRAM

The Housing Education Program, a division of Consumer Credit Counseling Service of San Francisco, has been providing HUD-approved housing counseling and education since 1994. We are committed to meeting the diverse housing needs of the communities we serve and provide a variety of services to help people obtain and maintain homeownership, including pre-purchase counseling and workshops, foreclosure prevention counseling, and reverse mortgage counseling.