Mortgage Modification vs. Refinancing: Which Should You Choose?

If you're one of the millions of troubled homeowners suffering from increased taxes, insurance and mortgage payments due to an adjustable rate mortgage and falling home values, there are options for foreclosure assistance and attempting to come current on your loan. Two of the best options include either a mortgage modification or refinancing your mortgage.

Mortgage Modification

Mortgage modification consists of your current lender altering the terms originally agreed to when you first took out the loan. Interest rates may be cut, principal amounts may be reduced, the life of the loan could be extended to lower monthly payments, penalties and fees may be forgiven, and escrow accounts could be altered or eliminated.

The biggest advantage to using mortgage modification to avoid foreclosure and come current on your loan is that it is much less expensive than refinancing because it avoids origination fees associated with a new loan. It also allows you to stay with your current mortgage lender, versus searching for a new one that will refinance for you. In addition, refinancing must generally take place prior to defaulting on a loan, so mortgage modification may still be an option after this happens in the foreclosure process.

Many troubled homeowners may have heard of filing for a forbearance agreement as well. However, these agreements are designed to only last for a short amount of time, giving the owner a chance to regain his footing and find a new source of income. Conversely, mortgage modification is a permanent solution in the case that an owner will never be able to repay the loan, such as if they have become disabled.

Refinancing

Refinancing is also an option which will bring your loan current, and may be issued at a lower rate, resulting in a lower monthly payment. This is also a permanent option for troubled homeowners, but it should be remembered that it must be completed before foreclosure notices are filed on the property.

Going to a new lender and applying for a new mortgage requires you to have some sort of income or other way to pay the loan, as well as good credit ratings. If you have already fallen behind on your mortgage and it is reflected on your report, why would another lender give you money for the same purpose?

This option is best utilized as soon as a changing circumstance happens that will change your income or ability to pay. One spouse leaving work to stay home with a new baby, injury, illness and losing a job may all be reasons to refinance for a lower payment.

The key to preventing seeing your home in foreclosure is to communicate your situation and learn to negotiate with your lender. Without knowing your situation ahead of time, they may just

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assume you're refusing to pay for no good reason. Call them and let them know when you do about changing circumstances that may affect your ability to pay.

Avoiding foreclosure means you can't avoid your lender; it will only make things worse in the long run and perhaps become too late to do anything about losing your home.

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