

Mortgage modification stops payments, drops credit

Published: Tuesday, August 30, 2011, 2:45 PM Updated: Tuesday, August 30, 2011, 3:28 PM

By **Karin Price Mueller/The Star-Ledger**

Q. I applied for a mortgage modification 18 months ago. I am still waiting to get my mortgage payments lowered. I was told in order to get help I would have to stop making my monthly payments, which I did. In the meantime my credit score dropped tremendously. If they deny me and my house goes into foreclosure, how long would the foreclosure stay on my credit report? And how soon would I be able to purchase another house in the future?

-- *Sharrie in Newark*

A.The Brain is sorry to hear you're having money troubles, but we're glad to hear you're asking the right questions to rebuild your credit someday.

Over 30 percent of homes sold in the past couple of years have been due to foreclosures or short sales, said Margaret O'Meara, a Red Bank-based certified financial planner with LPL Financial, Member FINRA/SIPC.

"If you do go into foreclosure you can expect your credit rating to drop by approximately 85 to 200 points or more," she said. "As every consumer is different this number is a moving target, and varies due to how many accounts that you have, your outstanding balances versus the available credit that you have and payments being made to those accounts."

O'Meara said the foreclosure will remain on your credit report for seven years, and generally, consumers who have foreclosures on their record can get a mortgage after five years, but at a price.

"You could pay thousands of dollars more if your credit rating hasn't bounced back," she said. "If your home does go into foreclosure and with your credit rating already being affected by the late payments, it is important to improve your credit score as soon as you can. Otherwise, when borrowing money, your rates will be much higher than consumers with good scores."

Reed Fraasa, a certified financial planner with Highland Financial in Riverdale, is concerned about your supposed pending modification.

"I am concerned that you have fallen victim to a possible scam," he said. "There are a lot of people taking advantage of the current real estate collapse and soliciting business by claiming to get substantial mortgage modifications."

Fraasa said the advice to stop paying your mortgage is absolutely wrong and no reputable advisor would recommend this. There is no evidence that stopping your mortgage payments will motivate a mortgage company to work with you any more than if you continue to pay your mortgage, he said. However, if you do go into foreclosure, it's not the end of the story. Fraasa said.

"If you keep all of your other credit obligations in good standing, your FICO score can begin to rebound in as little as two years," he said. "The important thing to remember is that a foreclosure is a single negative item. If you keep it isolated, it will be much less damaging to your credit score than if you had a foreclosure in addition to defaulting on other credit obligations."

He suggests you make at least the minimum payments each month on your credit cards and never be late. Tear up extra cards and get the balances lower, but don't cancel them.

Fraasa said the impact of foreclosure on your score diminishes over time, and this depends on whether you have other active, on-time accounts.

-- *Karin Price Mueller*

*E-mail your questions to **askbiz@starledger.com**.*

© 2011 NJ.com. All rights reserved.