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What Happens If Your Mortgage Lender Goes Bankrupt

With all the turmoil in the subprime market these days, many large and small mortgage lenders are filing for bankruptcy. This can be very frustrating to borrowers who were about to start the mortgage process with these companies and very confusing to those who already had loans with them. The question on everyone's mind is: what happens now?

If you are a subprime (or poor credit) borrower who was pre-approved with a company that just went under, you may have a few options before simply starting over with the loan process. The first step is to contact the company to find out their plans in terms of your mortgage. "Ask, 'Are you going to be able to make my loan?'" says Joseph M. Kolar, member of the ABA's consumer financial services committee and partner in Buckley Kolar LLP in Washington, D.C. "If not, ask whether the company can make arrangements for another lender."

Kolar also suggests talking to your state banking regulator if you cannot reach the lender. The regulator may also know if there are any other lenders ready to take over your loan. And if the bankrupt lender was found for you by a mortgage broker, you should talk to the broker about finding you a new lender, pronto. You might also do a little investigative work into why the broker originally set you up with that company. Hopefully the bankruptcy was just a case of the unexpected and was formerly a company your broker trusted. If you sense any shady dealings though, your best bet is to find a new broker.

You may also have to check if the loan standards have changed since you received your pre-approval. It may not be valid anyway, as increased foreclosures among subprime borrowers have caused lending companies to tighten their credit standards. You can check this out with the lender taking over your loan or by speaking with a new lender.

If you already have a mortgage loan with a lending company filing for bankruptcy, don't worry – your loan will simply be transferred to a new lender. This process actually happens quite frequently in the mortgage world as loans are often sold on the secondary market and your loan may change hands between bond traders. The main thing to know is that who ever last owned or serviced your mortgages is required by law to notify you of the change in servicing, giving you the name of the new company, the address, telephone number, and the effective date of the switch. This lets you know when and where to start sending your mortgage payments.

Just be wary of scammers stepping in and claiming to be your new loan servicer. You should confirm with them their address and company name. If you think for any reason the person contacting you for payment is not the legitimate new loan servicer, try contacting your original lender to confirm or dispel your suspicions.

Dealing with mortgage lender filing for bankruptcy may shake your confidence in borrowing a bit, but don't let it get you down. The mortgage industry is well regulated and there are plenty of lenders to step in and take over when one company folds.