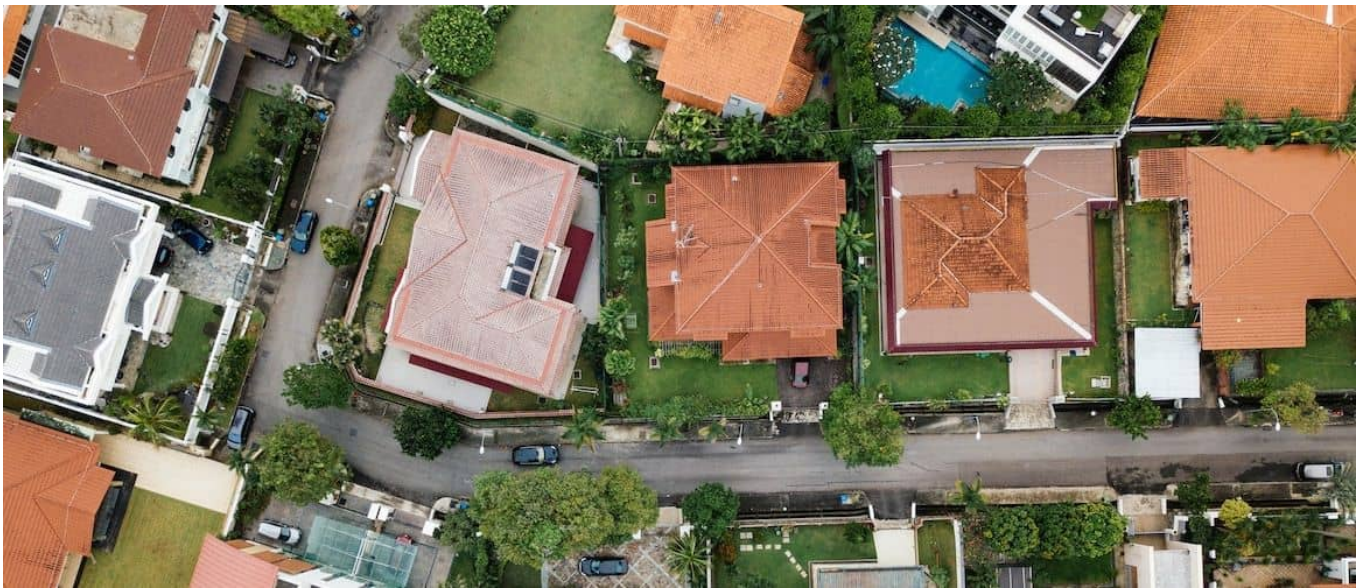




Search



Home / Learn / **Deed In Lieu**



Deed In Lieu Of Foreclosure: What To Know

ANDREW DEHAN | 7-MINUTE READ

JANUARY 06, 2022

Share:    

You're probably already aware that your lender will have to act if you fall behind on your mortgage payments. A deed in lieu agreement might help you to avoid the repercussions of a foreclosure, the legal process in which the lender that owns your loan takes your property back.

We'll look at how a deed in lieu agreement works, and how it differs from a foreclosure.

See What You Qualify For



What Is Deed In Lieu Of Foreclosure?

A deed in lieu agreement is an arrangement where you give your mortgage lender the deed to your home. Homeowners agree to deed in lieu agreements to avoid foreclosure.

Foreclosures show up on your credit report, which can make it virtually impossible for you to buy another home for years. A deed in lieu of foreclosure can release you from your mortgage responsibilities and allow you to avoid a foreclosure on your credit report.

When you hand over the deed, the lender releases its [lien](#) on the property. This allows the lender to recoup some of the losses without forcing you into foreclosure. When you turn over your deed, the lender also releases you from anything else you owe on the mortgage. Many homeowners seek deed in lieu agreements when their mortgage ends up [underwater](#), meaning they owe more on their home than the home is worth.

Reasons A Lender Might Reject A Deed In Lieu

It's important to remember that your lender has no obligation to accept a deed in lieu agreement. Some of the reasons why a lender might reject a deed in lieu include:

A depreciated home value: If the value of your home has gone down, you might owe more on your loan than your home is worth. In these cases, your lender might only agree to accept the deed in lieu agreement if you pay the difference between the appraised value and what you owe.

Liens or tax judgments on your property: It becomes your lender's problem when you give up your deed if you have a judgment or secondary lien, which is a claim to your property not made by the lender. Most lenders don't want to deal with this hassle so they'll reject an agreement if they see that someone else has a claim on the property.

Poor home condition: Your lender doesn't want to inherit a project. If your home is in poor condition, your lender will likely reject any deed in lieu agreement you propose.

Incentives to put the home into foreclosure: Some government-backed loans only give the lender a payout if your home goes into foreclosure. Your lender will likely reject your

See What You Qualify For

Reasons A Lender Might Accept A Deed In Lieu

Though a lender isn't obligated to accept your deed in lieu of foreclosure, they have a few incentives to do so. Some of the benefits your lender gets when they take a deed in lieu include:

Faster control over your property: Lenders must pay attorneys to go to court, prove that you haven't been paying your bills and get approval from the court to take your property in foreclosure. In some states, the lender must also legally evict you from the property, even after they've already gone to court. Your lender saves both time and money by taking a deed in lieu.

Better property conditions: Lenders want to take control of properties that are in good condition. This is because these properties sell for more money and spend less time on the market. A lender can stipulate that you must keep the property in good condition with a deed in lieu. This allows them to sell the property for more money later on.

Deed In Lieu Vs. Foreclosure: What's The Difference?

A deed in lieu is different from a foreclosure. A deed in lieu means you and your lender reach a mutual understanding that you cannot make your loan payments. The lender agrees to avoid putting you into [foreclosure](#) when you hand the property over amicably.

In exchange, the lender releases you from your obligations under the mortgage. Your lender might even offer you a bit of financial assistance as an incentive to keep the property in good shape before you leave. Though a deed in lieu will show up on your credit report, its impact isn't as severe as a foreclosure.

Your lender must go through the proper legal channels to remove you and take back control over the property in the event of a foreclosure. Though a foreclosure is an immediate solution to falling behind on your payments, it comes with many drawbacks. A foreclosure will impair your credit score and stay on your credit report for 7 years. During this time, it will be impossible for you to buy another home unless you're able to pay cash for the home. Your lender is also unlikely to offer you a financial incentive to leave the

See What You Qualify For

Remember that a foreclosure is a long and expensive process for both you and the lender. You should consider all of your options very carefully before you agree to give up the deed to your home. In many cases, it's best for both you and the lender to restructure your mortgage instead of pursuing a foreclosure. Contact a Housing and Urban Development (HUD) housing counselor or a defense attorney who specializes in foreclosures in order to decide on your best course of action.

Is Deed In Lieu Of Foreclosure Right For You?

Whether you should take a deed in lieu or not depends upon your unique situation. Let's look at some of the benefits and drawbacks.

Benefits Of A Deed In Lieu

Minimization of your deficiency: A "deficiency" is the negative difference between what you owe on your home and what it's worth. A deed in lieu can eliminate your deficiency if you owe more on your home than the home is worth. In exchange for giving the lender your deed voluntarily and keeping the home in good condition, your lender may agree to forgive your deficiency or greatly reduce it.

Potential for moving assistance: Lenders want to take control of your property when it's in the best condition possible. Many lenders offer "cash for keys" agreements to help you find a new place to live when you forfeit your deed without damaging your home.

Less damage to your credit: A deed in lieu agreement stays on your credit report for 4 years while a foreclosure sticks around for 7 years. Taking a deed in lieu agreement can allow you to buy a new home sooner than if you were to go through a foreclosure.

Drawbacks Of A Deed In Lieu

Loss of your home: Your lender removes your name from the title of your home when you take a deed in lieu of foreclosure. This arrangement isn't right for you if you still want to live in your home.

No guarantee of acceptance: Your lender isn't obligated to accept your deed in lieu of foreclosure. They can simply reject your proposal.

Your credit will still take a hit: While a deed in lieu arrangement won't harm your credit as

See What You Qualify For

You may owe tax money on your forgiven loan balance: If your lender forgives more than \$600 of deficiency on your loan, the IRS considers it income. You'll have to pay income tax on any deficiency your lender forgives when you pay taxes.

Other Ways To Avoid Foreclosure

A deed in lieu isn't your only option to avoid foreclosure. Let's examine a few other choices you have when you can't make your mortgage payments.

Loan Modification

A loan modification might be right for you if you can't make your mortgage payments but you want to remain in your home. A loan modification means your lender changes the interest rate on your loan to match current market rates.

You may owe more on your home than it's worth. In that case, your lender may be able to put the excess principal in a forbearance account. While in [forbearance](#), the excess principal doesn't build interest. This can stop you from falling further into debt while you pay off what you owe. The amount in forbearance is due when you pay off the rest of the loan.

Like a deed in lieu agreement, a lender has no obligation to modify your loan. Work with your lender to try to find a solution that's beneficial for both of you.

Short Sale

You may be able to sell your home through a [short sale](#) if you can't get a modification or you don't want to keep living in your home. A short sale means you sell the home for less than the amount that's left on your mortgage.

Most short sales take place because property values have gone down in your area. During a short sale you communicate with buyers, show your home and talk to real estate agents just like a normal sale. However, unlike a normal sale, your lender needs to approve the short sale before it goes through.

You may or may not still owe money after a short sale. Some states (like California) have laws that ban deficiencies after a short sale. If you have a deficiency, your lender may sue

See What You Qualify For

difference between what's left on your loan and the amount your home sells for, be sure to ask your lender to waive their right to sue for deficiency.

Final Thoughts On Deed In Lieu Of Foreclosure

A deed in lieu agreement might help you move out of your home and avoid foreclosure. When you take a deed in lieu agreement, you transfer your home's deed to your lender voluntarily. In exchange, the lender agrees to forgive the amount left on your loan. A deed in lieu agreement won't stay on your credit report if a foreclosure will. However, your lender must first agree to take the deed in lieu of foreclosure; they're under no obligation to accept your terms. You can improve your chances of acceptance by keeping your home in good condition.

You can stay in your home with a loan modification if you don't want to take a deed in lieu, but you may also sell your home with a short sale if you can't make a modification work for you.

Remember, everyone's financial situation is different and it's best to speak with a licensed financial expert or advisor before making any major financial decisions.

Have questions or need some help with your mortgage? Speak with a [Home Loan Expert](#) today.



Andrew Dehan

Andrew Dehan is a professional writer who writes about real estate and homeownership. He is also a published poet, musician and nature-lover. He lives in metro Detroit with his wife, daughter and dogs.

See What You Qualify For

Related Resources

Do You Have An Underwater Mortgage? Here Are Your Options

REFINANCING - 6-MINUTE READ

PATRICK CHISM - FEBRUARY 09, 2022

If you owe more than your home is worth, you have an underwater mortgage. Find out how this happens and what you can do about it.

[Read More](#)

What Is A Short Sale In Real Estate? A Guide To The Process

HOME BUYING - 13-MINUTE READ

MIRANDA CRACE - FEBRUARY 15, 2022

A short sale is when a homeowner in financial trouble

See What You Qualify For

mortgage. Learn about the process, pros, cons and risks.

Read More

How To Get Your House Ready To Sell

HOME BUYING - 9-MINUTE READ

VICTORIA ARAJ - JANUARY 07, 2022

Getting ready to put your home on the market? There are a few steps you can take to bring in the best offers.

Read More

Rocket Sister Companies



Buy a home, refinance or manage your mortgage online with America's largest mortgage lender¹



Get a real estate agent handpicked for you and search the latest home listings

See What You Qualify For

Get a personal loan to consolidate debt, renovate your home and more



Find and buy the perfect car or truck from thousands of vehicles, all in one marketplace

Rocket Mortgage

Buy A Home

Refinance

Rates

Make A Payment

Legal Info

FAQs

About Us

Rocket Mortgage

Careers

Disclosures And Licenses

Terms Of Use

Email And Text Policy

Security and Privacy

Do Not Sell My Personal Information

See What You Qualify For

Press Room

Support

Talk To Us

Share Your Screen

Communication Opt-Out

Give Us Your Feedback

Site Accessibility

Connect With Us



See What You Qualify For



J.D. Power Disclaimer

¹Based on Rocket Mortgage data in comparison to public data records.

Rocket Mortgage, 1050 Woodward Ave., Detroit, MI 48226-1906

NMLS #3030. Go [here](#) for the Rocket Mortgage NMLS consumer access page.

Current Reward
\$500 closing credit

Expires in
04 : 19

Interested in a new home or
refinancing? Get in touch now to
score money off your closing costs.

Current Reward:
\$500 closing credit

*Reward drops to \$250 closing credit
after 5 minutes*

Let's Go

[Terms and Conditions](#) [Quickly Privacy Policy](#)

reserved. Lending services provided by Rocket Mortgage, (SE: RKT).

ite LLC, RockLoans Marketplace LLC (doing business as are separate operating subsidiaries of Rocket a separate legal entity operated and managed through as required by its state of incorporation and applicable

ple Inc. registered in the U.S. and other countries. App

marks of Google LLC.

See What You Qualify For