



NOAH Foreclosure Prevention and Mitigation
A How To Guide to Develop an Application for a Modification

Parts of a Packet

The following is a checklist of information normally included in a Modification Application. Depending on the individual circumstances of your client, additional documentation may be required to prove the hardship or income.

CHECK LIST

- 1) NOAH's detailed budget template
- 2) Client's Signed Hardship Affidavit
- 3) Making Homes Affordable Request for Modification (RMA) form, filled and signed by client
- 4) Authorization to speak on behalf of Client
 - a. If the application is going to Bank of America, make sure client signs the Bank of America Authorization form. Most other banks accept our general authorization form.
- 5) One month pay stubs for all income in household
- 6) Proof of other income (i.e. unemployment benefits, SSI, foodstamps, etc.)
- 7) Two months bank statements
- 8) Two years of Federal Tax returns (2007, 2008 or if possible 2009)
- 9) Proof of rental income (signed leases)
- 10) One Utility bill

The following pages give a more detailed overview of how to construct an application for a modification. As always, ask a supervising counselor for further clarification.



The Basics of Developing a Budget

Monthly Income Calculation

The two main challenges with calculating a budget are taking into account fluctuations in income and making sure you are not double counting expenses. In addition, analyzing paystubs often uncovers extra deductions that the client may not be aware of or may want to consider suspending during their time of financial hardship. Make sure you understand everything that is on the pay stub and do not be afraid to ask the client or NOAH staff!

NOAH's Budget Template:

- 1) Expenses:
 - a. Fill in the expenses from those given on the Intake form. We will confirm expenses with the client during the individual counseling meeting, but the intake budget will give you a rough idea of the finances.

- 2) Income:
 - a. Use the first page of the budget template to calculate income. There are formulas already set up to calculate yearly income for you. Make sure to use these formulas so that other NOAH staff can be sure to understand your work.

1) How to Calculate the Monthly Income

The two methods to calculate income are YTD and Paystub average. For every client you should **do both** methods and compare the results. YTD gives you an average for the year. The Paystub method gives you an average for recent months.

The accuracy of the different figures depends on the client's situation. For example, if a client only earns income nine months out of the year or the income often fluctuates the YTD gives the accurate overall picture of the earnings. In contrast, if the client's income decreased due to a reduction in hours, the YTD method will result in a larger number than is true at present. **The YTD method is usually the more accurate method.**

Year to Date method

Complete for both Gross and Net

- a. Divide YTD by the number of weeks that were paid – this gives you the weekly average
- b. Multiply this number by 52 – to get the yearly pay
- c. Divide the yearly pay by 12 to determine the monthly income.

Example 1:

YTD: 20,552.39

Pay Period: 9/21/09-9/27/09

Pay Period is the 39th week in 2009

- a. $20,552.39/39 = 526.98$
- b. $526.98 \times 52 = 27,403.19$ (projected year earnings)
- c. $27,403.19/12 = 2,283.60$ per month

Pay Stub Average method

- a. Take an average of the paystubs
- b. Multiply the number by 52 (weekly), 26 (bimonthly), 12 (monthly)
- c. Divide by 12

Example 2:

Weekly Paystubs: 520, 520, 520, 620

- a. Average: $(520 + 520 + 520 + 620)/4 = 545$
- b. $545 \times 52 = 28,340$
- c. $28,340/12 = 2,361.67$ per month – gross

In the examples the YTD and paystub average method give monthly figures with a difference of \$78.07. You want to know why there is this difference in amount. In this case the answer is easy because the 4th paycheck has a bonus of \$100, which the client told us was not normal. Thus, the more accurate figure is either the YTD method or the average without including the bonus.

2) NET Income issues:

A. Double Counting Expenses

Many people have deductions automatically taken from their paychecks. Make sure if a client has for example health care on his or her expenses it is not also deducted from the net income. Either add the expense back into the net income or remove it from list of expenses on the budget sheet.

Common deductions:

- | | |
|----------|---------------------|
| -medical | - savings accounts |
| -dental | - child support |
| -401K | - court settlements |

B. Look for unnecessary deductions

Many people do not pay attention to what is taken out of their paycheck. Foreclosure risk is the time to make sure you are only paying for what you really need. If you do not understand what a deduction is on the Paystub – ask the Client. If they do not know, make sure you get to the bottom of this.

Note: 401K savings present an issue that often must be addressed with the client. Many people put a monthly amount into a 401K. This is an important savings practice. We do not tell people to stop paying for their retirement. However, clients should consider whether they want to suspend this savings to prioritize their house. Most lenders consider 401K set-asides as income.

C. One time or occasional expenses or bonuses

We want as accurate as possible a calculation of the income. These are some common occasional or one-time bonuses or expenses to look out for when calculating income.

Bonus

- Holiday or other Bonus
- Overtime (find out how often and how reliable)

Expenses

- Transportation (i.e. t-pass may be deducted once per month)
- Uniform charge (find out how periodic)

INCOME & EXPENSES PAPERWORK

1) Income Documentation – Prove everything

All Income must be documented when making an application to the lender. Income documentation includes two months of the following:

- a. Paystubs of all contributing household income earners
 - i. Make sure that the paystubs are consecutive
 - ii. Some lenders only require one month
- b. Rental Leases
 - i. NOTE: For purposes of the 31% calculation, gross rental income for rent is 75% of the rental lease. Hence, use 75% of the lease amount in the budget.
 - ii. *Lease Document*: If the client does not have a rental lease we can give them a copy of a residential lease to have the tenant sign. Ask staff for a blank lease.
 - iii. *Rented rooms*: Lenders may accept a signed letter from the roommate indicating how much they pay for the room, but in many cases lenders have begun to require an actual lease from someone renting a room in a house.
 - iv. *Schedule E Tax Returns*: If there is rental income make sure that the Schedule E Federal tax returns are included in the taxes sent to the lender. Schedule E is where rent is declared.
 - v. *Maintenance*: Per Supp. HAMP Directive 09-01, p. 8 net rent for HAMP purposes will be 25% of gross rental income, taking into account maintenance and vacancy costs. This means that you should not include home maintenance in the expenses list.
 - vi. *Deposit rent in Bank Accounts*: We always recommend clients deposit the rent into their checking account. Even if the tenant pays in cash, proof of deposit into the bank account is an important way to show this rental income.
- c. Profit & Loss Statement
 - i. A Profit and Loss Statement is required for any self-employed income. This document is the only way to account for jobs paid in cash.
 - ii. Most banks require a CPA or notarized P&L statement
 - iii. Make sure the taxes match the P&L statement. If there are discrepancies, explain the differences in the application.
 - iv. We always recommend that for self-employed clients they have a separate business bank account. By depositing income from the business and taking out the expenses, the bank account provides a clear record of business expenses versus household expenses.
- d. Benefits Income (SSI, Foodstamps, unemployment)
 - i. Need a statement of benefits
 - ii. *Unemployment*: HAMP only counts as income if you will receive for more than 9 months. Look at the remaining balance on the unemployment check statement. Include in the package anyways even if not certain to receive for more than 9 months.

2) Expenses Documentation – Prove as much as possible

- a. Medical care
 - i. Large medical expenses, like the need for a home care nurse, should have a doctor's note as proof.
- b. Child Support Statement
- c. Court settlement payment – include copy of court order

BANK STATEMENTS

- 1) Include **two months bank statements** in application

Note: Make sure you examine the bank statement. There may be expenses or income that the client failed to mention on the budget that will be revealed on the bank statement. Since the lender will examine the statement, so should we.

TAX RETURNS

- 2) Include **Federal Tax Returns from 2007 and 2008**

- a. Include all attachments, especially:
 - i. Schedule E if rental income is included
 - ii. Schedule [?] if self-employed
- b. **Make sure they sign and date on the second page**
- c. No need to include state tax returns
- d. If client cannot locate past tax returns they can go to the IRS building in Boston, and have a copy printed. More info at: <http://www.irs.gov/localcontacts/article/0,,id=98286,00.html>

>>>>>>>>Analyze the tax returns for discrepancies in income!<<<<<<<<<<<<

CREDIT REPORT

- 3) **Do not** include the Credit report in the bank package!
 - a. The infiles from the credit report are helpful to determine a client's actual monthly minimum credit payments. Since the bank will examine these figures – we should too.
 - b. Include the monthly minimum figures on the budget sheet
 - c. Make sure you have included the credit score in NSTEP and updated the report.