

Loan Modification Self-Help Guide



Real Estate MATTERS!

You can do your own Loan Modification.

Make it your mission to save your home.

JULY 2011

RE 21 (NEW 7/11)

Table of Contents

I.	What is a Loan Modification and Do I Qualify	3
II.	Laws Surrounding Loan Modifications	4
III.	“Homeowner Beware”	5
IV.	Preparation Before Calling Your Mortgage Lender and Checklist	5
V.	Worksheets	8
VI.	When You Receive Your Loan Modification Paperwork	16
VII.	Other Resources	16
VIII.	Glossary of Terms	18

I. What is a Loan Modification and Do I Qualify

Description of a Loan Modification

A loan modification is a re-structuring of your current loan term, interest rate, and/or payments. Occasionally, some of the principal balance of your existing loan may be forgiven and/or your loan term could be extended. These new terms are meant to provide you with an opportunity to stay in your home while making affordable payments for the life of the loan. It is a tool to help you avoid foreclosure if you are willing to make payments and have the income to sustain affordable payments.

Do I Qualify for a Loan Modification?

- You must be able to substantiate consistent and sufficient income to cover your new payments. If you do not have consistent income to be able to make the new payment under the Loan Modification, your request may be denied. A new proposed monthly payment on a Loan Modification (including your property taxes and insurance) should be about 31% or less of your monthly income.
- A foreclosure of your home cannot be imminent. If your foreclosure sale date is coming soon, your request for a Loan Modification may be denied.
- You cannot currently be in a bankruptcy proceeding (unless otherwise instructed by your bankruptcy attorney).
- If the home is not your primary residence, your Loan Modification request may be denied.

Alternatives

- Request a **Forbearance Agreement** from your Mortgage Lender. It is a formal, temporary agreement you work out with your Mortgage Lender in writing that is designed to temporarily stop foreclosure proceedings. It is not a complete Loan Modification. They are usually used when your inability to make payments is temporary such as when you have an injury.
- Consider increasing your income by taking on a **second job** and then re-attempting the Loan Modification.
- Consult with a **Bankruptcy** attorney on all of your options.
- Speak to a local real estate agent regarding a **short sale**. A short sale means that arrangements are negotiated with your Mortgage Lender to sell the house for less than you owe. Other than selling your home and satisfying the loan, there are no benefits to your credit. When you do attempt to purchase another home, the new mortgage underwriter for that loan will likely consider your short sale with the same weight as a foreclosure. Multiple mortgages on your property complicate short sale alternatives.
- A **Deed in Lieu of foreclosure** can be an option in the event you have decided you can no longer afford your home and do not want to go through marketing efforts or foreclosure. With a Deed in Lieu of foreclosure, you ask your lender if they would accept the deed to your property instead of foreclosing. Your Mortgage Lender would need to verify they are the only lien holder on the property. Then they would schedule a walk-through inspection of your property.

However, the lender does not have to accept a deed from you. The lender may decide a foreclosure is a better option for them, and as such will not agree to a Deed in Lieu of foreclosure.

Expectations

- It is not difficult to do your own Loan Modification, however, **it is time consuming and tedious**. You must be persistent with your Mortgage Lender. Call often and document your calls to include the name of the person representing the lender, the date and time of your conversation, the phone number, and all information they give you. Recap the points of your conversation for clarity.
- A successful Loan Modification could take several months, so be sure to return all requested information and documentation to your Mortgage Lender in a timely manner. Keep all delivery receipts.
- You can expect that your lender may request an appraisal of your home be completed by a professional real estate appraiser or real estate broker.
- Once you do receive the final Loan Modification paperwork, you can also expect that the initial Loan Modification will be for a trial period of usually a few months. After you have made all scheduled payments on time, your trial period will end and your Loan Modification will become permanent. If you are considering selling your home, you would have to wait for your Loan Modification to become permanent. However, it would be prudent to have a real estate attorney or real estate broker review the terms of your Loan Modification prior to listing your home for sale.

II. Laws Surrounding Loan Modifications

Laws

- In 2009, Congress passed the Federal Mortgage Loan Modification Program called **Making Homes Affordable** to help stop foreclosures. Under this program, your mortgage must be under \$729,500 and have been signed before January 1, 2009. The Federal Government offers grants, loans, subsidies, and other financial incentives to banks who institute this program; however, this program does not guarantee that your Mortgage Lender will refinance or modify your loan.
- Then Governor Arnold Schwarzenegger signed **Senate Bill 94** (Calderon) on October 11, 2009 which prohibits any person, including real estate agents and broker, and lawyers, from demanding, charging, or collecting an advance fee from a consumer for Loan Modification or Mortgage Loan Forbearance services. If you are approached by any person requiring up front fees for these services, do not pay them. The California Department of Real Estate has information about Senate Bill 94 and its broad advance fee ban, and that information can be accessed at http://dre.ca.gov/cons_adv_fees_alert.html.
- Effective January 31, 2011, the **Federal Trade Commission (FTC)** issued a rule with nationwide effect that bans providers of "mortgage assistance relief services", which includes residential mortgage foreclosure rescue, loan modification, short sale, and deed-in-lieu of foreclosure

services, from requesting or collecting fees or any other consideration from a homeowner until the consumer has executed a written agreement with the loan holder or servicer which incorporates the offer of mortgage relief the provider obtained from the loan holder or servicer. The rule also mandates that such mortgage assistance relief providers disclose to consumers what the total cost of the services will be, that they have no connection to any government program or agency, and that homeowners are free to reject any offer from their lender or servicer with no requirement to pay a fee to the relief provider. Moreover, it bars the mortgage relief operators from providing false and misleading information, and from destructively advising consumers to stop communicating with their home loan lenders or servicers. The complete text of the new FTC rule can be found at 16 Code of Federal Regulations, Part 322, or at <http://www.ftc.gov/opa/2010/11/02/mars.shtm>.

III. “Homeowner Beware”

“Homeowner Beware”

- Most Mortgage Lenders only take your payments, which is called servicing the loan, and then forward the payments to the investor that actually owns your loan or note. Ask if your Mortgage Lender is only a servicer, and if so, ask them for the phone number to the investor that actually owns your home. Generally, the note owner must approve the loan modification.
- Do **NOT** stop making your mortgage payments just to try and qualify for a Loan Modification.
- If you have a first and second mortgage (sometimes a third as well), you may have different Mortgage Lenders. You need to be sure and contact all of your Mortgage Lenders. Just because you may have worked out a Loan Modification with one Mortgage Lender, doesn’t mean the others are barred from foreclosure or that they have any obligation to each other.
- A short sale does not necessarily look better on your credit report than does a foreclosure. Also, it does not always free you from the balance you owe, leaving you with what is called a deficiency balance. Although recent changes to the tax codes generally do not make short sales a taxable event, you should consult with a certified tax preparer as well to discuss possible tax implications you may incur during a short sale.
- **IF YOU ARE APPROACHED BY ANY PERSON REQUIRING UP FRONT FEES FOR LOAN MODIFICATION OR SHORT SALE SERVICES, DO NOT PAY THEM AND CONTACT THE DEPARTMENT OF REAL ESTATE, MORTGAGE LOAN ACTIVITIES UNIT AT (916) 227-0770.**
- Be aware that your lender may not agree to do any Loan Modification. You are requesting a change to the loan terms to which you and the lender already agreed. Therefore, there is no obligation for the lender to approve your request for any change and the Loan Modification request may be denied.

IV. Preparation Before Calling Your Mortgage Lender and Checklist

STEP 1:

Before you contact your Mortgage Lender, you should first prepare the four **worksheets (A-D)** found in this guidebook.

STEP 2:

Next you should gather all of the necessary documentation found on the “**Items to Deliver to Your Mortgage Lender**” checklist.

STEP 3:

You need to determine the estimated **current market value** of your home. You can do this in a number of different ways:

1. Search your property address on www.zillow.com
2. Contact a local Real Estate Broker for a broker price opinion
3. Contact a local appraiser in the yellow pages

You should note that some of the methods above may require payment. You will need to do the specific research to determine which of the services you can get for free in your area.

STEP 4:

Once you have completed steps 1 through 3 above, you are now prepared to contact your Mortgage Lender and speak to them intelligently with all of the information in front of you. Call the customer service phone number listed on your mortgage statement and ask for the **Loss Mitigation Department**, the **Loan Modification Department**, or the **Foreclosure Prevention Department** (they all mean the same thing, just different phrases). Follow the instructions of the Agent, Representative, or Counselor that you speak to and be sure to take notes, write everything down, and ask questions.

Homeowner Names: _____

Loan #: _____

Date: _____

Items to Deliver to Your Mortgage Lender

You can use the following checklist as a guide when gathering the documentation. Your Mortgage Lender will require you to provide this and perhaps other information when requesting a Loan Modification. You may want to include a copy of this checklist with your documents. Mark each page of each copy with your identifying information. Be sure to send **copies only** and not the original documents.

1. Current Mortgage loan **statement**

2. Original Mortgage loan documents to include your **NOTE and DEED OF TRUST**

Record the following information here:

Term of your loan (30 years, 15 years, etc.) _____

Current Interest Rate _____

Is it fixed or adjustable? _____

Are you making Interest Only payments? _____

Will there be a balloon payment due? _____ If so, when? _____

How much? \$ _____

Is there a prepayment penalty on the loan? _____

3. Information you have obtained regarding the **current market value** of your home

4. Current **paystubs** covering the past **2 months** for the Homeowner and Co-Homeowner

5. All **W-2s and/or 1099** forms for the **most recent tax year** for all Homeowners

6. All pages of your income **tax returns** for the **most recent tax year** for all Homeowners

7. Any **other forms of income** such as: benefits or awards letters, retirement or pension benefits statements, annuity statements, child support and/or alimony received to include court order and proof of receipt of payment, any other forms of income; you should have at least the most recent **2 months** proof of each

8. Most recent **bank statements** covering the past **2 months**; you will need all pages

9. **Hardship Letter** – A personal statement written, signed, and dated by the Homeowner and Co-Homeowner describing the hardship that has occurred which is the basis for your requesting a Loan Modification. (Examples of hardships are: serious illness, job loss, payments have adjusted, etc.).

V. Worksheets

Prepare the following worksheets and have them ready to submit to your Mortgage Lender. It is important that they are filled out **completely** and **accurately**.

- A. Contact Information Worksheet**
- B. Monthly Income Worksheet (Part A for Homeowner and Part B for Co-Homeowner)**
- C. Financial Information Worksheet**
- D. Asset Information Worksheet**

A. CONTACT INFORMATION WORKSHEET

Property

Address _____

1st Mortgage Lender: _____

Loan Number: _____

2nd Mortgage Lender: _____

Loan Number: _____

3rd Mortgage Lender (if applicable): _____

Loan Number: _____

Your Full Legal Name: _____ Your SSN: _____ - _____ - _____

Home Phone # (_____) _____ - _____ Work/Cell Phone # (_____) _____ - _____

Mailing

Address _____

Your Spouse/Co-Owner: _____ SSN: _____ - _____ - _____

Home Phone # (_____) _____ - _____ Work/Cell Phone # (_____) _____ - _____

Mailing

Address _____

Number of Family Members living in this home _____

B. MONTHLY INCOME WORKSHEET (part A)

Homeowner:

1. Primary Employer Name and Address: _____

Net Salary \$ _____

Net Overtime \$ _____

Commission \$ _____

Bonus \$ _____

TOTAL: \$ _____ per month

2. Secondary Employer Name and Address: _____
(if applicable) _____

Net Salary \$ _____

Net Overtime \$ _____

Commission \$ _____

Bonus \$ _____

TOTAL: \$ _____ per month

3. Other Income:

SSI \$ _____

Alimony/Child Support \$ _____

Retirement Income \$ _____

Other: \$ _____ (list source: _____)

TOTAL \$ _____

***List the TOTAL of all sources of income for the Homeowner per month \$ _____

B. MONTHLY INCOME WORKSHEET (part B)

Co-Homeowner:

1. Primary Employer Name and Address: _____

Net Salary \$ _____

Net Overtime \$ _____

Commission \$ _____

Bonus \$ _____

TOTAL: \$ _____ per month

2. Secondary Employer Name and Address: _____

(if applicable)

Net Salary \$ _____

Net Overtime \$ _____

Commission \$ _____

Bonus \$ _____

TOTAL: \$ _____ per month

3. Other Income:

SSI \$ _____

Alimony/Child Support \$ _____

Retirement Income \$ _____

Other: \$ _____ (list source: _____)

TOTAL \$ _____

*****List the TOTAL of all sources of income for the Co-Homeowner per month \$ _____**

C. FINANCIAL INFORMATION WORKSHEET

Monthly Payment / Current Balance Due / Past due? # months (if any)

1 st Mortgage	\$ _____	\$ _____	_____
2 nd Mortgage	\$ _____	\$ _____	_____
3 rd Mortgage	\$ _____	\$ _____	_____
Alimony	\$ _____	\$ _____	_____
Child Support	\$ _____	\$ _____	_____
Child Care	\$ _____	\$ _____	_____
Liens	\$ _____	\$ _____	_____
Judgments	\$ _____	\$ _____	_____

Loans:

Auto (1)	\$ _____	\$ _____	_____
Auto (2)	\$ _____	\$ _____	_____
Furniture/Appliance	\$ _____	\$ _____	_____
Finance Company	\$ _____	\$ _____	_____
Personal Loan	\$ _____	\$ _____	_____
Line of Credit	\$ _____	\$ _____	_____

Credit Cards:

_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____

Utilities:

Electricity	\$ _____	\$ _____	_____
Heating/Gas	\$ _____	\$ _____	_____
Telephone/Internet	\$ _____	\$ _____	_____
Cell Phone	\$ _____	\$ _____	_____
Cable/Dish	\$ _____	\$ _____	_____
Water/Sewage	\$ _____	\$ _____	_____

FINANCIAL WORKSHEET CONTINUED

Monthly Payment / Current Balance Due / Past due? # months (if any)

Insurance:

Homeowner's	\$ _____	\$ _____	_____
Auto	\$ _____	\$ _____	_____
Health	\$ _____	\$ _____	_____
Life	\$ _____	\$ _____	_____
Dental	\$ _____	\$ _____	_____
Child Care	\$ _____	\$ _____	_____

Donations:

Church	\$ _____	\$ _____	_____
Charity	\$ _____	\$ _____	_____

Dues:

Union	\$ _____	\$ _____	_____
HOA (if applicable)	\$ _____	\$ _____	_____
Club	\$ _____	\$ _____	_____
Other _____	\$ _____	\$ _____	_____

Medical: (not covered by insurance)

Doctor/Dentist	\$ _____	\$ _____	_____
Hospital	\$ _____	\$ _____	_____
Medication	\$ _____	\$ _____	_____
Other _____	\$ _____	\$ _____	_____

Auto(s):

Gasoline	\$ _____	\$ _____	_____
Maintenance	\$ _____	\$ _____	_____
Parking	\$ _____	\$ _____	_____
Other _____	\$ _____	\$ _____	_____

Food:

Groceries	\$ _____	\$ _____	_____
School Lunches	\$ _____	\$ _____	_____
Work Lunches	\$ _____	\$ _____	_____
Other _____	\$ _____	\$ _____	_____

Clothing

New Purchases	\$ _____	\$ _____	_____
Dry Cleaning	\$ _____	\$ _____	_____
Uniforms	\$ _____	\$ _____	_____
Other _____	\$ _____	\$ _____	_____

FINANCIAL WORKSHEET CONTINUED

Monthly Payment / Current Balance Due / Past due? # months (if any)

Miscellaneous:

Toiletries/Makeup	\$ _____	\$ _____	_____
Entertainment	\$ _____	\$ _____	_____
Vacations	\$ _____	\$ _____	_____
Gifts	\$ _____	\$ _____	_____
Other _____	\$ _____	\$ _____	_____
Other _____	\$ _____	\$ _____	_____

TOTAL of ALL Expenses listed above \$ _____ per month

TOTAL of ALL Expenses listed above \$ _____ current balance

Homeowner's Total Income from the Income Worksheet Part A: \$ _____

Co-Homeowner's Total Income from the Income Worksheet Part B: \$ _____

TOTAL HOUSEHOLD INCOME \$ _____ per month

TOTAL of ALL Expenses listed above \$ _____ per month

DIFFERENCE FROM INCOME AND EXPENSES: \$ _____ *

*(Note: the difference from income and expenses may be a negative number)

D. ASSET INFORMATION WORKSHEET

Checking Account:

Bank Name _____ Account # _____
Balance \$ _____

Savings Account:

Bank Name _____ Account # _____
Balance \$ _____

Other Account:

Bank Name _____ Account # _____
Balance \$ _____

IRA	\$ _____
Stocks/Bonds	\$ _____
401K	\$ _____
Annuities	\$ _____
CDs	\$ _____
Other _____	\$ _____

Other Assets (Estimated Value):

Home (This property)	\$ _____	(How did you obtain this value? _____)
Other Real Estate	\$ _____	
Automobile (s)	\$ _____	
Boat	\$ _____	
Motor Home/Trailer	\$ _____	
Cash Value Life Ins	\$ _____	
Household Items	\$ _____	
Jewelry	\$ _____	

VI. When You Receive Your Loan Modification Paperwork

When you receive the paperwork, be sure to:

- ___ 1. Understand all of the terms including the type and terms of your loan, your new interest rate and payment.
- ___ 2. Review and confirm that all of your personal information is correct.
- ___ 3. Contact your Mortgage Lender immediately if there is an error.
- ___ 4. Sign the documents exactly as your name appears on the paperwork.
- ___ 5. Have the signature notarized (only if required by your Mortgage Lender).
- ___ 6. Keep copies of all the documents before you send them back.

VII. Other Resources

If you have other questions or need further assistance with your Loan Modification process, you can contact the following non-profit agencies:

Homeownership Preservation Foundation (HPF)	3033 Excelsior Boulevard, Suite 500 Minneapolis, MN 55416
	http://www.995hope.org 1-888-995-HOPE 1-888-995-4673 (612) 230-4020
HOPE NOW Alliance	1001 Pennsylvania Avenue, NW, 7th floor Washington, DC 20004
	http://www.hopenow.com 1-888-995-HOPE 1-888-995-4673
LawHelpCalifornia.org	www.foreclosureinfoca.org
National Foundation for Credit Counseling	801 Roeder Road, Suite 900 Silver Spring, MD 20910
	http://www.nfcc.org 1-866-845-2227 (301) 589-5600
Neighborhood Assistance Corporation of America (NACA)	3607 Washington Street Jamaica Plain, MA 02130
	http://www.naca.com

	1-888-302-NACA 1-888-302-6222 homesave@naca.com
NeighborWorks America	1325 G Street, NW, Suite 800 Washington, DC 20005-3100
	http://www.nw.org/ForeclosureSolutions (202) 220-2300
FHA HUD Counseling	www.hud.gov (800) 569-4287
Senior Legal Hotline (for Sacramento)	(800) 222-1753 (916) 551-2140

For more Consumer Publications, visit the California Department of Real Estate at: www.dre.ca.gov.

VIII. Glossary of Terms

Advance Fees – any money that is claimed, demanded, charged, received, or collected up front in promise of services to be done before those services have been completed

Appraisal – a written evaluation of the current market value of your home completed by a qualified individual such as a licensed appraiser or real estate broker

Balance of your loan forgiven – a portion of the loan balance is erased and that part of the debt against your home is erased

Balloon payment – an oversized payment due at the end of the mortgage term; a lump sum payment

Current Market Value – the amount of money your home would bring if you sold it today in the current, local market; the highest amount any buyer is currently willing to pay for your home today

Deficiency Balance - the amount left over when the money an Investor or Mortgage Lender receives from the sale of their foreclosed property that is insufficient to pay off the full loan balance

Foreclosure – A process by which an Investor or Mortgage Lender sells your home at a sale auction in order to pay off your loan balance and reclaim their collateral- which is your home

Mortgage Underwriter – a person working for an Investor or Mortgage Lender that reviews your mortgage loan application or Loan Modification request, along with all of the supporting documentation you provided, to determine if you qualify for the loan or modification and what the risk to the Investor or Mortgage Lender might be

Prepayment Penalty – a fee or charge that is assessed to the borrower if they pay their mortgage loan balance off early, before the end of the term specified in the penalty

Term of Loan – the length of time set to pay off a loan; usually mortgages are set for 15, 30, or sometimes 40 year terms