Tools for Mitigating Mortgage Hardship

Formal Alternatives - Two Categories:
Responses to <u>short-term, less severe financial problems</u>

- Reinstatement
- Forbearance
- Repayment plan

Responses to <u>longer-term, more severe financial problems</u>

- Modification
- Sale
- Pre-foreclosure sale
- Assumption
- Deed-in-lieu of foreclosure

For <u>short-term, less severe</u> financial problems

- Reinstatement

Your servicer should be willing to accept the amount owed to them in a lump sum by a specific date. The servicer often combines this option with a Forbearance.

- Forbearance

A formal, written repayment agreement between the borrower and the mortgage servicer. Under the terms of the agreement, monthly payments are reduced or suspended for a specific period of time. The servicer must ensure that the repayment installments are based on the borrower's ability to pay. During that time, the borrower pays either a lower monthly payment or no payment at all.
At the end of the agreed-upon period, the borrower resumes making regular monthly payment as well as additional funds to make up for the past-due amount.

Benefit
During period of forbearance, borrower has the opportunity to resolve the financial hardship AND remain in the home. The borrower is permitted to prepay the delinquency at any time.

- Repayment plan

Temporary increase in monthly payments until the loan is brought current.
Servicer calculates the additional payment required and how long it will be required.

Benefit
Borrower has the opportunity to “make up” missed payments over a period of time, rather than all at once AND remain in the home.

For <u>longer-term, more severe</u> financial problems

- Modification

One or more of the terms of the mortgage may be changed permanently to bring the loan current. For example, the modification might involve extending the term, adding the missed payments to the existing loan balance or changing the interest rate (including making an adjustable rate into a fixed rate).

A loan modification is appropriate for borrowers who have experienced a permanent reduction in income, or an increase in expenses (family size, large repairs). Delinquent interest, escrow, fees, and other costs may be added to the principal balance that is owed, subject to state law.

Benefit:
The borrower is offered a fresh start and the loan remains a performing asset.

- Claim Advance

If your client’s mortgage is insured, they may qualify for a free loan from their mortgage guarantor to bring their account current.

For <u>longer-term, more severe</u> financial problems where the borrower doesn’t want or isn’t able to keep the house.

- Sale

The servicer will usually give your client a specific amount of time to find a purchaser.
This option works well when the client can pay off the full amount owed by selling the house.

- Pre-foreclosure sale

The borrower in default sells the property and uses the sale proceeds to satisfy the mortgage debt even if the proceeds are less than the amount owed. The servicer agrees to accept the proceeds of the sale in satisfaction of the mortgage loan. Borrowers may be asked to make a cash contribution or sign an interest-free promissory note for the all or part of the difference between the proceeds from the sale of the property and the amount owed on the mortgage.

Benefit:
Borrower avoids the stigma and tax liability of a foreclosure.

- Assumption

The home is transferred to a new buyer who agrees to take responsibility for (assumes) the existing mortgage. New buyer must meet credit guidelines

Benefit:
Borrower avoids the stigma and the tax liability of a foreclosure.

- Deed-in-lieu of foreclosure

The borrower voluntarily gives the deed to the property to the servicer in exchange for a release from all obligations under the mortgage. Generally viewed as an option only after all other alternatives have been explored. Only available if there are no junior liens (or they agree to release) and the property is vacant at the time the deed is executed.

Benefit:
The borrower is relieved of the debt and avoids the stigma of foreclosure.
The borrower can reduce the tax impact by surrendering the property as quickly as possible after the decision is made so that the taxable loss is minimized.

Alternatives to a formal modification (Suggestions from other non-profit partners):

- Perform a thorough budget review to understand Needs vs. Wants
- Modify a lifestyle by eliminating unnecessary items (e.g. cable/satellite TV, eating out…)
- Review exemptions: homestead exemptions, tax exemptions…
- Second mortgages loans might be available through local housing agencies to help residents save their homes
- Selling Assets (extra car, boat, collectables, jewelry, yard sale items…)
- Review medical options (switching from brand to generic)
- Find a roommate for rental income
- Work overtime and/or find a second job
- Look for a new job
- Try to increase the child support/alimony received
- Cash in retirement accounts (withdraw due to hardship)
- Borrow from family or friends
- Commercial Second Mortgages (or unsecured consumer loans). If you have built some equity and have not damaged your credit history too seriously, you might qualify for a loan at an affordable interest rate. However, make sure that you can make the payments.

What will the Loss Mitigation department expect?

Servicers' loss mitigation staffs work with borrowers to determine the nature of the hardship, their overall financial situation and craft potential solutions.
The borrower(s) are likely to be asked to provide the following documents:

- Hardship letter

- Borrower's Financial Statement (Fannie Mae Form 1020 or servicer loss mitigation form). Fannie Mae Form 1020 can be created and printed from Home Counselor Online (from within a case file)

- Current month's bank statement(s) for checking and/or savings accounts

- Current pay stub(s) or, if self-employed, most recent Federal Tax returns

- Servicer will run a credit report to confirm loan and credit card balances, judgements, etc.