



A Consumers Guide to Loss Mitigation

Generally speaking, a homeowner in Michigan will face a sheriff's sale when they are between 4 and 6 months delinquent. Up to the point of sheriff's sale, homeowners can approach their lender for a solution to their delinquency. **Loss Mitigation is the process of resolving mortgage delinquency to avoid foreclosure. Loss mitigation DOES NOT always mean keeping the house. The goal is to avoid foreclosure.**

Homeowners who are concerned about their ability to make their mortgage payment must first answer two basic questions:

1. **Can we still afford this house?** (In other words, is our problem temporary loss of income – unemployment, short term layoff, short term disability; or a permanent loss of income – death, divorce, permanent disability?)
2. **What are we willing to do to keep this house?** Are we willing to give up discretionary items, cut back on other things, work a second or third job, etc.?

WHEN MAKING THE CALL TO YOUR LENDER:

The loss mitigation department can also go by the name “home retention” or “workout” or something similar. The critical point is that it is a separate department from customer service or collections. Loss mitigation service reps are trained to offer solutions to delinquency that collection or customer service reps cannot. Do not waste any time or energy talking to the collection department. Ask to be transferred directly to loss mitigation.

How to Navigate in the Loss Mitigation Process

The first step in the loss mitigation process is to collect all the household bills, analyze the checkbook and create a monthly list of expenses. Include all monthly obligations, as well as groceries and miscellaneous spending. Once that information is listed, review it as a family to decide what can be reduced or cut out completely. Compare this new “crisis” budget to all sources of household income to see where you stand. If you feel you can realistically continue to support the mortgage, it is time to determine if your loan is owned by Fannie Mae or Freddie Mac.

THE GOVERNMENT'S MAKING HOME AFFORDABLE PROGRAM

Fannie Mae and Freddie Mac are the primary investors in mortgage loans in the U.S. They are a major participant in President Obama's **Making Home Affordable** program. (See www.makinghomeaffordable.gov for more details). Go to www.fanniemae.com/loanlookup or 1 800 7FANNIE or www.freddie.com/mymortgage or 1 800 FREDDIE to

determine if they hold your mortgage. If they do hold your mortgage, you are automatically eligible for consideration for the **Home Affordable Refinance** or the **Home Affordable Loan Modification**.

The **Home Affordable Refinance** is available only for Fannie/Freddie loans. It allows homeowners to refinance at today's lower rates as long as their principal balance is less than 105% of today's market appraisal. The process is quick, and the minimal costs can be rolled into the loan balance. You **CANNOT** take any cash out in this product. This product is for people who have stable income and have not been late on their mortgage.

The **Home Affordable Loan Modification** is available for Fannie and Freddie loans as well as most other loans. If your lender is participating in this program, you may be eligible for a loan modification. This program was designed to help homeowners who have incurred a reduction in their income. If your mortgage payment now represents more than 31% of your gross income, your lender can try several things to bring your payment down. The first, and most common, is to reduce your interest rate. Under the terms of this program, your rate could go as low as 2%. Another option for lowering your payment is to amortize the loan out to 40 years. A final, most extreme option, is to write down the principal balance. If you are offered an interest rate that is below today's market rate, the reduction will be in effect for 5 years. After that, the rate will increase by 1% each year until it reaches today's market rate. The lender has complete control over which, if any option, they will offer you. The solution has to be in the best interest of the investor of the loan, not you.

You must **QUALIFY** for these programs. Your lender must be convinced that this is a long term solution. That is why they usually will not make a loan modification based on unemployment income. You may be able to negotiate a temporary solution, but unless the lender is convinced that you will be going back to work soon, they may not be willing to work with you.

These two programs are the solutions you are most likely to be offered. However, even if your lender is not participating in the Obama program, you can still try to negotiate a loan modification. Any loan modification will bring your loan current by taking the total delinquency and adding it back to the principal balance. The loan will be recalculated (usually at a reduced interest rate), and you will be presented with a new monthly payment.

All lenders require the same basic documentation to apply for a loan modification:

- A summary of income and expenses
- A hardship letter
- Proof of household income

(Some lenders may want to see several months' bank statements or several years' tax returns. Check your lender's web site to see if their work out package can be downloaded.

HARDSHIP LETTER:

Your hardship letter should **BRIEFLY** state what caused the problem, and why you think the problem is (or can be) solved. You should be clear in what you would like the lender to do, (As you can see from my attached financial



statement, I can no longer afford my current payment. I would like you to lower my interest rate so that my monthly payment is no higher than \$750.00), **but you must be realistic.**

BE PATIENT....

The loss mitigation process takes a LONG TIME. **It can take lenders between 90 and 120 days to grant a loan modification.** The foreclosure process **DOES NOT STOP** just because you have asked for a loan modification. If you are unable to make a payment on your mortgage during this time, you may receive notice that you are facing foreclosure. It is essential that you stay in touch with the loss mitigation department on a regular basis.

REFER TO YOUR FAMILY'S BUDGET:

Do not accept a workout solution that you know you can't manage. If you default on a workout plan, you may not be eligible for another solution. It is better to decline the offer and ask for a different solution.

If there is no realistic way to keep the house, there are ways to leave the house without facing a foreclosure.

If it is clear to you that you can no longer afford your mortgage, you can talk to your lender about a **pre-foreclosure or short sale.** A short sale allows you to list your house at its fair market value, even if you owe more than that. Your lender will forgive the residual debt. If the home has been for sale for 90 days with no offers, you can ask your lender about a **deed-in-lieu of foreclosure.** This option allows you "sign the house back" to the lender. Again, any residual debt on the property is typically forgiven. Your credit score will be impacted by these options, but it is not as bad as a foreclosure. Keep in mind that *credit always heals itself.*

BE AN INFORMED CONSUMER:

Do not be intimidated by this process. The best way to protect yourself, your home and your family is to be an informed consumer. NEVER pay anyone to assist you with this process. You can do this on your own, or receive the help of a housing counselor at no charge.

For more information, or to make an appointment, contact

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