HOW TO SUCCESSFULLY NEGOTIATE A MORTGAGE MODIFICATION YOURSELF

MAKE A WAY® MINISTRIES INC

How to Negotiate a Mortgage Modification Yourself

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THIS IS A FREE E-PUBLICATION

PUBLISHERS NOTE:

For most homeowners foreclosure is a subject no one wants to talk about even though it's all around us. It's scary and most people are uninformed and afraid to talk to their Lenders when a problem develops. But this publication will teach you a LOT about one of the principal options for dealing with and avoiding foreclosure so you can win the battle and hopefully keep your home. Be encouraged: knowledge is power! You have made a very wise decision to read this publication. Now you HAVE to study and learn what to do.

This report is NOT an exhaustive review on the subject of foreclosure and should be considered with other publications that help to fully explain it. The Publisher in no way guarantees that you will be able to achieve any particular result by applying the information discussed, taught or recommended in this Report. Each case is unique and so is each Lender. Accordingly, *Make A Way Ministries* shall not be responsible in any way for any results from using this publication and all users are urged to consult with church leadership, financial professionals and/or legal counsel to clarify any personal financial issues and to help find actual success in the face of an actual foreclosure proceeding.

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A WORD ABOUT MAKE A WAY MINISTRIES:

Make A Way Ministries, Inc. (MAW) is a nationally known non-profit (501C-3) Christian and bible-based teaching ministry. The Ministry has operated continuously since September of 1987 and has assisted tens of thousands of families across the nation to overcome a variety of credit and financial problems. It is also known as *Cornerstone Financial Counselors* (CFC) which is an approved marketing name that is associated with an A+ rating by the Better Business Bureau.

The mission of MAW is to educate families so they can be victorious in overcoming financial difficulties. This publication is part of that ministry. MAW publishes and sells publications in order to raise funds for its ministry. Many of the publications are FREE. Up to now we have not made appeals for donations although they are certainly accepted when folks feel like making them. A donation into *Make A Way Ministries* would be seed sown into good ground and would make it possible for the ministry to help more families.

If you have any questions about the ministry of *Make A Way*, please feel free to call us during normal working hours Monday through Friday from 10:00 AM to 5:30 PM Central time. You can submit prayer requests to the ministry through the web site at www.creditcounseling.net, by emailing us at cfc@creditcounseling.net.

Also, if you would be interested in subscribing to our weekly bible-based e-newsletter *Prosperous Life Newsletter* you can do so by visiting our web site and following the prompts. PLN has been continuously published since the beginning of 1998. We believe you will be blessed and blessed again by subscribing to this publication.

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HOW TO SUCCESSFULLY NEGOTIATE A MORTGAGE MODIFICATION <u>YOURSELF</u>

ONE: IT'S TIME TO CHANGE YOUR THINKING

The only reason you would be interested in the contents of this publication is that either you're facing foreclosure yourself or you know someone who is and you want to help them. Definitely the prospect of foreclosure on one's highly treasured family home is a traumatic prospect because people have worked all their lives to own their homes and because they're scared to death of the financial system they know too LITTLE about. The truth is most people who're facing foreclosure are feeling too fearful, too depressed, too timid and too powerless which will have to be overcome if you really want to succeed at this.

The Bible says that the way we THINK defines who we are (Proverbs 23:7). If we find ourselves at this point in our lives defeated all the time, plagued by trials and tribulations and problems, it's probably largely because that's the way we think of ourselves, that's the way we see ourselves. We EXPECT defeat and trials and tribulations and problems to show up all the time and so they do. Our thinking attracts them and our fear of them then draws them into our lives. There's a biblical principle that says that the things we FEAR will come upon us (Job 3:25) and that's the way many of us are choosing to live our lives these days.

The greatest limitation people have in their lives is that they see themselves as less than God sees them with far less ability and purpose than they've been created to accomplish. You can't go farther in life than where you SEE yourself going and you're going to actually walk out pretty much what you see yourself doing. If our parents were a certain way, then we tend to think the same way and act similarly; and most of us have a hard time breaking out of that mold and achieving something significantly beyond the template. The only way that's going to change is to change how we think within ourselves and about ourselves.

The reason for bringing this up at the outset of this Report is to challenge you to change the way you think. Otherwise, you'll skim through these pages like many other folks will and procrastinate for a while until it's too late to make something happen. The truth is we're living in a time when more VICTIMS are being created than at any other time in the history of the world. Many folks are actually wanting to be VICTIMS these days so they can blame someone or some thing for the problems they have in life when in fact their problems are largely their own fault. Or even if they're not their fault they have within them all the resources they need to eventually overcome whatever they're facing.

The point is this: if you want this publication to produce for you what you acquired it for, then you need to get rid of any vestiges of a mentality that says you're facing foreclosure as a victim of the economy and that you have no resources to help you defeat the system and keep your home.

Does everyone fit this glowing victorious description? Of course not; some people have problems that others of you who're stronger need to voluntarily help them overcome or make the most of. But they're in the minority and victimization is trying to claim a majority and make us dependent and ineffective. No, the majority of us are fully capable of overcoming our problems and the way we do that is by learning how to take control of the things in life we don't yet understand but ought to, and to stop being so passive about everything.

Friend, it's NOT okay that most people know almost nothing about the world financial system that so directly affects our lives. Who told you that such ignorance is acceptable? In what book of wisdom did you ever read such a concept? The truth is you do NOT have to live in ignorance and anyway most of it is not rocket science; it's just that people are lazy and willing to rely on so-called experts, and even pay them for the knowledge they've taken the time and work to acquire, instead of learning about these things themselves. The Recession of 2008-10 should have revealed just how much society needs to change their thinking and reassert control in their lives. But as usual it didn't seem to register with most people.

This Report will teach you how to be a winner even though you're confronted by the world financial system, the world legal system and a few other world things that are trying to bring you down. But approach this challenge with a new attitude and with new confidence. If you read everything in this Report you should come away with new hope and an optimism that you can prevail and come out a winner. Every time fear or doubt tries to come into your mind, speak out loud against it and cast it down. Decide to see yourself the way God sees you because according to Him you are a winner, not a loser. And by applying yourself to the task of learning about foreclosure you can become an informed consumer, eager for battle and ready for victory. And if a mortgage modification turns out to be the right strategy for you, you won't have to pay some attorney up to $20,000 or even more for a simple loan modification.

May God bless your commitment and diligence!

TWO: SOME IMPORTANT BASICS

A delinquency in the payment of a mortgage is historically the most serious kind of non-payment a consumer can have because a mortgage represents a debt that's secured by a family's home and the family's home is usually its most significant asset. "Secured" means that the debt has collateral behind it as compared to a credit card which is usually an unsecured debt with no collateral. As a result, the consequences of mortgage delinquency can be severe with the end result being the loss of the property through the foreclosure process resulting in a serious long-term derailment of a family's entire financial structure.

A "foreclosure" occurs when the Mortgage Lender forces the sale of the property that's securing the debt, i.e. the collateral, in order to recover what a borrower owes. Starting in 2008 we've experienced here in the United States the greatest relative number of residential foreclosures since the Great Depression of the 1930's. In connection with this problem residential properties decreased in value across the country by as much as 50% or even more from 2008 until well into 2010. And while the decline in property values is now seeming to reverse itself, the problem of home foreclosures is expected to continue on a gradually declining level through the rest of this year (2013) and into the future for two to five years hence. In sum, home foreclosures are expected to remain at historically high levels for a while yet.

Every person who loves his/her family should learn about foreclosure including how to prevent it, how to avoid it and then certainly how to handle it in the event you have to become involved in one. So, as you go through this Report, try to keep in mind a very important foundational fact that works strongly in the Borrower's favor and will apply to everything we consider:

Mortgage Lenders would rather <u>not</u> have to foreclose on a home because it's an expensive and time consuming process.

The truth is Lenders are typically poor property managers and they know that if they have to repossess a property, it will deteriorate and decline in value because it will be sitting unoccupied for a considerable period of time until finally it can be sold. And they know as well that when a repossessed property is finally resold, the sale frequently does not generate enough revenue to cover the total amount the consumer owed much less all the additional costs they've had to incur through the foreclosure process.

The bottom line is that generally Lenders would like to find a way to keep defaulted borrowers in their homes.

Contrary to popular belief Lenders are not staying up nights thinking of ways to take over consumers' homes so they can make a lot of extra money. So, when they do finally come to a decision to repossess one, it's really as a last resort after they've reminded the Borrower a number of times without success of the need to bring the debt current and to contact them to discuss alternatives. The truth is most borrowers simply dodge their Lenders and resist making contact until their problem has progressed for two or three months and the pressure is mounting to find a solution. As will be repeatedly pointed out, avoiding your Lender is the WRONG strategy if you want to be a winner in a contest of foreclosure.

Despite the wishes of Lenders not to foreclose and the desires of most families to maintain possession of their homes, millions of foreclosures have occurred over the past two decades and they will continue to occur if families don't change the way they're trying to deal with this challenge.

Therefore, the purpose of this Report is to provide information and education to help families overcome foreclosures by the most popular of the various options: a MORTGAGE MODIFICATION. Millions of families have wanted one, especially during the Recession, but almost none of them knew what they were doing and the result is that millions of homes have been foreclosed. In fact, many families exhausted their savings to hire expensive professionals to represent them with their Lenders only to find out later that the service was inadequate and unsuccessful. Many others have tried for extended periods of time to get their own modifications because they couldn’t afford expensive professionals but most of the time they were declined by their Lenders and lost their homes to foreclosure.

The truth is, Mortgage Modifications are a viable option for avoiding foreclosure. But consumers have lacked the basic knowledge they needed and could have had:

In the World financial system it is the responsibility of defaulting borrowers to go and get their modifications; it is not the responsibility of Lenders to give away mortgage modifications to people who don’t understand the system.

Aggressive and well-informed consumers who refuse to give up WILL eventually get their Mortgage Modifications and this publication can be a big help.

THREE: THE FORECLOSURE PROCESS

When Borrowers apply for Mortgage Modifications, they're usually in the process of defaulting on their loans. In other words they haven't made their mortgage payments for at least two or three months which usually causes most Lenders to send a Notice of Default. This is the first step in a foreclosure process that typically goes something like the following summary depending upon the Lender and the workload of the local Court:

1. When a borrower passes 30 days of delinquency, the Mortgage Lender will soon send a letter reminding the borrower that the payment is late and a related late fee has been imposed which is often 5% of the normal payment. Delinquency by 60 days will usually result in a repeat of this same basic action.

2. After the payment reaches 90 days late, the Mortgage Lender will usually send the borrower a formal notice declaring that the loan is in default. This is called a **Notice of Default** which will state that foreclosure proceedings will soon begin unless payment is received.

3. After the Mortgage Lender sends the *Notice of Default*, the borrower will usually have approximately 90 additional days to "cure" the default and reinstate the loan including remittance of all the missed payments, late fees and any other charges the Lender has imposed according to the agreement you have with them.

4. If after the additional 90 days the loan has not been cured, the Mortgage Lender will most likely file a lawsuit asking that the property be taken away from the borrower by court order, sold to the highest bidder and that any interest the borrower has in the property be "foreclosed". In most cases, a **Summons** is served on the homeowner, which permits the borrower to file a written response with the Clerk of the designated Court within 20 or 30 calendar days.

5. If the borrower doesn't file a written defense with the court within the 20 or 30-day period, the case will be automatically scheduled for a

future hearing with a **Motion for Summary Judgment of Foreclosure** submitted by the Lender to the Court.

6. If there is no defense from the Borrower the judge will then order that the mortgage be foreclosed and that a date for sale be set. The **Notice of Sale** is then published and the property is considered to be ready for sale to the highest bidder.

The point of summarizing this process is so you can see that from the time you miss your first mortgage payment, the better part of a year could pass before the foreclosed house is finally foreclosed and sold. At any point in that process even up to the day the property is to finally be sold, the Borrower can recover the home by curing the default and arriving at an agreement with the Lender for an alternative course of action. So you'll have quite a bit of time to work this out and a Mortgage Modification is just such an alternative course of action.

The Effect of a Mortgage Modification on the Process

But beyond even this drawn out process, the effect of applying for a Mortgage Modification when you're first beginning to miss those first two or three payments will be to slow the process down even more. What you need to know first is that once you default on your mortgage your Lender's Legal Department will initiate their foreclosure process and it will plod along step by step. But you'll be simultaneously negotiating with your Lender's Loss Mitigation Department to have your mortgage modified. The two processes (Legal and Modification) will proceed in parallel, but depending upon the lender, there will be a tendency for the Legal Process to slow down if you're making a good faith attempt to work out a modification. Remember: your Lender would rather find a way to avoid the foreclosure and they will keep trying to find a way to accommodate a modification <u>if you're aggressively seeking one and staying on top of your application process</u>.

The bottom line is this: most uninformed consumers are in a state of panic when they start talking to their Lenders and they think they only have a few weeks before the foreclosure process takes away their homes and kicks them out on the street. So, there's a lot of pressure and anxiety that causes many folks to make bad decisions out of fear or to give up when they still have a chance to win. As you can see you have a lot of time to work on your mortgage modification and <u>by knowing this, you can gain the upper hand with your Lender and be in relative control of your destiny</u>.

FOUR: HOW TO OBTAIN A MORTGAGE MODIFICATION YOURSELF

A lot of people aren't able to afford a professional's fees to get a mortgage modification moving. If they could come up with the fees they wouldn't have a payment problem with their mortgage. But you'll have a lot of trouble finding a do-it-yourself instruction kit anywhere which prompted us to put together this Report. Accordingly, the objective of this Section is to provide the details you'll need to assemble a complete proposal package for a Mortgage Modification YOURSELF. In the process of learning and using this information you'll save yourself from $1,500 to $5,000, even up to $20,000 or more for an experienced attorney. So however much you may have donated for this Report will have been recovered many, many times over just by this section alone.

The main reasons a Professional counseling agency is usually needed to put together a mortgage modification proposal package are: 1) the borrower doesn't know anything about the subject, and 2) the borrower is petrified with fear at the thought of having to deal directly with his/her Lender. There's also a lot of fear about the possibility of losing the family home so it's assumed it will take a professional to manage this kind of high level responsibility and convince Lenders to do the right thing.

But if you're reasonably bright (average is good enough), willing to follow directions and you can somehow take control of your fear, you WILL be able to coordinate your own mortgage modification. And because you've acquired this publication, you can call *Make A Way Ministries* and receive some quick pointers without charge whenever you get stuck. Yes, FREE COUNSELING. You can reach *Make A Way* during normal working hours Monday through Friday at 1-800-357-4223 or by email at cfc@makeaway.net. Have your questions ready so the conversations can be short and more people can be helped in the available time. We'll be standing behind this publication to help you make it work.
A mortgage modification is a permanent change in the terms and conditions of the mortgage document you signed the last time you

financed your house. The terms and conditions include the repayment term and the interest rate you're being charged for the use of the Lender's money. When you borrowed that money, you had to "qualify" for the mortgage by meeting certain criteria established by either a regulatory agency or the banking industry itself. When the Lender agreed to lend you the money, you met the criteria and the Lender's underwriter determined you to be a reasonable risk in accordance with the terms and conditions of the mortgage. The higher the risk for the Lender, the higher the interest rate you were required to pay over the long term of the mortgage repayment period. The fact is, you accepted those terms and conditions, you were approved for the mortgage on that basis and the deal was closed.

Lenders are definitely willing to consider mortgage modifications but they're basically facing an economic decision. It is a matter of numbers. On the one hand, they'll have to make major concessions to you the borrower to keep you in your home and those concessions will cost a lot of money. On the other hand, they can foreclose on the loan for nonpayment and that will cost them a lot of money as well. Thus, there's a decision to be made: which scenario will cost the Lender the least amount of money?

It's not about you; it's about the money. And this is something you'll need to remember as you're putting together your proposal to modify your mortgage: your objective is to obtain some significant economic concessions but not beyond the point where a Lender will start preferring foreclosure over modification. It's a little tricky but you can do it.

Another factor working in your favor is that most of the big Lenders are under pressure from the federal government to accommodate their borrowers as much as possible. That's because they accepted loans and bail out money back during the Great Recession to keep from going bankrupt (some had to go through bankruptcy anyway or merge with a stronger organization) so they're expected to use what they've been "given" to make loans. This could work directionally to your benefit by causing your Lender to accept an arrangement that before the Recession they wouldn't have considered. Don't forget this as you negotiate with your Lender.

In pursuing a Loan Modification you'll be putting together a proposal package that contains several forms and documents. For most people this is probably a revelation: you don't just pick up the telephone, have a conversation with a representative of your Lending Company and suddenly you're given a loan modification. It's a process and paperwork is involved and time passes before it's approved, perhaps several months. Although the specific format of the proposal package varies among the Lenders, the information provided in it is basically the same for all of them.

Following now is a series of Steps for putting together a Mortgage Modification proposal that will impress your Lender and make it possible for you to come away from this a winner!

Step 1 – Prepare a Financial Worksheet

The first thing you're going to need to do is prepare a Financial Worksheet. We used to call it simply a Family Budget. Most families in America don't have a budget but you should have one in hand before you make that first call to your Lender. The reason is that you want to know exactly where you stand financially so you'll be able to answer your Lender's initial questions accurately and consistently from the very outset.

Most borrowers don't realize that Lenders are going to want to be sure that if they have to modify your mortgage, you're going to have the ability to pay the new amount so they won't have to go through another foreclosure scenario with you a few months later. Unfortunately, national statistics show that there has been a relatively high failure rate for people who have had their mortgages. Lenders have learned that they should be checking carefully on your income information to be certain of your ability to make your new payments over the future term of your modified mortgage.

Another reason for having your budget in hand before you call the Lender is that you want to know exactly where you stand before you make any statements to them over the phone about your financial condition. Everything you say will be copied down in the computer record and discrepancies between what you say at the beginning and what you will have to say later as the evidence is revealed will be questioned and re-verified. If you say something about your finances in the beginning that turns out to be inaccurate even though unintentional, it could cause your proposal to be turned down. <u>It's important to be truthful, accurate and consistent all the way through the process</u> and having the budget available at the beginning could be VERY instrumental in achieving those objectives.

Now your Financial Worksheet will have to balance two conclusions: it must show that you WILL have the ability to pay your proposed new mortgage amount but that you're NOT able to pay the current amount you're telling them you can no longer afford. You'll need to show a Financial Worksheet that's approximately a break-even AFTER including the proposed mortgage payment. Your budget could be a little on the positive side or a little on the negative and be acceptable. But you must somehow find the right balance between the ability to pay the new one and your inability to pay the old one.

One of the main things that a Lender will be looking at is the amount of your mortgage payment as a percentage of your current GROSS income. The national guideline is 31 percent of GROSS income (before any deductions) so if your current mortgage payment is say 40% of your current GROSS income, the Lender should be willing to take a look at a lower payment that could bring your budget into a more viable relationship.

Lenders will also be looking at all your other indebtedness too including car payments and in particular, credit cards. If you have a lot of credit card debt your Mortgage Lender may very well ask you to enroll in some kind of counseling program and/or to make it very clear how you are going to be able to pay your revised mortgage payment in the face of all the other monthly payments you have to make. Generally Lenders will be concerned if total monthly DEBT payments including the mortgage and credit cards exceed a guideline of 45-47% of GROSS income. Be ready to explain a higher percentage so the Lender can see how you're going to be able to make all your payments. And don't forget to let your Lender know at some that you place the greatest importance on your mortgage payment even if you have to default on the credit cards.

Please take away this understanding: your Financial Worksheet will prove to be one of the most important considerations in the entire Mortgage Modification process and you would do well not to underestimate the importance of this exercise.

It's certainly possible that your Lender won't ask you any questions when you first talk about your personal finances. But you need to be ready because many of them WILL ask in order to test your preparation and understanding of what you're asking them to do. You need to establish a measure of control over this process anyway instead of just conceding it to your Lender and your preparation and understanding will help you accomplish that. Just use the Financial Worksheet form included in this manual and you should be ready for the next step.

Step 2 – Prepare a Preliminary Hardship Letter

When you contact your Lender, you'll be advising them one of two things: if you haven't missed a payment yet that you're in *"imminent danger of being delinquent"* OR if you've already missed a payment or two that you have a cash flow problem. All through this Report we're recommending that the borrower contact the Lender even before there's a missed payment because by delaying you lose a measure of control over your situation. If you're already late with your payments then you're more at the mercy of what the Lender wants to do. But even if your payments are already late two or three months before you make your first call, it's not too late to request a loan modification.

One of the main questions the Lender is going to ask you in that first conversation is this: what happened in your life to make it necessary for you to have a payment problem? You need to have a good, direct, articulate and plausible story ready. And, you need to answer this question without stumbling around all over the place and talking about your Aunt Nellie and that Uncle John died last year or all the details of your most recent illness, etc. Avoid all those details that have nothing to do with the Lender and tell them succinctly why you're not able to make your payments:

In answering this question you'll be trying to establish that you're experiencing a "financial hardship" that makes it impossible for you to make your scheduled mortgage payments on time and in the amount agreed on in the loan documents. To be clear about it, you should clearly and briefly identify a particular local economic situation or a job loss or a medical problem that had an impact on your income and made it impossible for you to make your mortgage payments. The Lender will certainly take these issues into account. The Lender will be looking for an economic hardship that occurred outside of your control.

Therefore, we recommend that you prepare a draft Hardship Letter to the Lender BEFORE you make your first call to help you organize and direct your thoughts into a brief but effective summary of your financial situation. Included with Step 5 below is an example of a simple, MAXIMUM one-page letter which is all you need. The Lender doesn't have time to read a 10-page summary with all the details, so just please accept the fact that this is what you'll need. The complete letter should cover the following points keeping in mind that you will be sending it later to the Lender as a key part of your proposal package:

- Make a simple statement that you are seeking a permanent modification of your existing mortgage, indicate the address of the property and the related loan number.

- Include simple statements of the causes of your current economic hardship assigning the cause to the local economy, lost income, inability to refinance your existing mortgage or whatever other pertinent causes have led to your situation <u>that were beyond your control</u>.

- The Hardship Letter should also include a short statement requesting the Lender to review the proposal package that will be accompanying your letter with the objective of securing a modification of your current mortgage.

- And finally, the draft Hardship Letter should refer to a couple of the specific terms and conditions you're requesting including the repayment term (usually 30 or even 40 years) and the proposed new interest rate. Keep in mind that all Lenders are familiar with the federal guideline previously mentioned which says that your total housing cost including principle, interest, property taxes, homeowners insurance and any homeowner association fees should not exceed 31% of the family's gross income (income before taxes and deductions). Keep your request in the vicinity of that number and you'll have a better chance of having your proposal approved.

Keep in mind also as you prepare your Hardship Letter and as you discuss your situation with the Lender's loss mitigation officer that you'll be required to document your financial hardship. Resist making emotional statements or over reaching in describing your situation to the point that it can't be documented later on. Be honest and accurate with your statements because whatever you say can be researched verified.

Step 3 – Call Your Lender

As previously recommended, you should make your first call to your Lender at the first sign of a problem. Perhaps income has been suddenly reduced or you have a variable rate mortgage that's about to reset to an interest rate and monthly payment you know you won't be able to afford. Instead of just sitting there waiting for something to happen, take control of the situation and call your Lender to let them know what's going on. Many borrowers are afraid to call their Lenders thinking that if they let them know there's a problem developing they might start foreclosure or raise their interest rate or report them to the credit bureaus. Usually none of that is going to happen; in fact, most Lenders want to hear from their borrowers as early as possible so they can discuss with you the full range of possible alternatives.

When you make the first call you should ask for the “Loss Mitigation Department.” They will probably ask if you’re already delinquent with your mortgage payments and since hopefully you’ll be calling before you have missed a payment, the person that receives your initial call may not want to transfer you to Loss Mitigation but instead to the Customer Service Department. In most Lender organizations the Customer Service Department isn’t fully familiar with their own company’s policies for dealing with severe payment issues and you’re likely to get wrong answers. So whomever you do get transferred to, tell them clearly that you’re “in imminent danger of becoming delinquent” and that you insist on making contact with the Loss Mitigation Department to find out what programs they’re offering so you can assess your future options.

You may have to wait on HOLD for a while but be patient and soon enough someone will come on the line to speak to you. As soon as you begin the conversation, make a point of confirming the Lender Rep’s name and employee ID number and let them know you’re writing down this information for your records. Then simply tell the Rep in similar words that you’re “in imminent danger of becoming delinquent” and that you would like to know what programs are available that could possibly help you so you won’t lose your home. What you’ll want to find out at the outset is whether or not your particular lender will consider allowing you to enter a Loan Modification Program before you’re actually delinquent in your payments. There are two groups of lenders: some will allow you to enter Loan Modification if you can confirm for them that you’re truly in “imminent danger” of missing a payment; the other group will want you to have actually missed at least two payments before they will talk to you about a loan modification.

If it turns out that your Lender is in the first group, request them to send you a copy of their Loan Modification Application so you can start putting together your proposal package. But if they’re in the second group, you have to consider the following:

- If you can actually make your regular mortgage payments you need to go ahead and pay them because if you withhold them just to become delinquent, you could be in trouble later if your Budget reveals to the Lender that you were financially able to have made the payments. The question is this: is your cash flow sufficient to cover all your obligations based on a reasonable budget? If it <u>is</u> sufficient and your Financial Worksheet shows you should be able to make your mortgage payments, you're obligated legally and ethically to go ahead and make them. Whatever you do, remember that you will have to document whatever you say. They won't just take your word for it that you can't make your payments. They will want to know why and <u>they will want to know what changed</u> so that now you're suddenly not able to make your mortgage payments.

- If you're truly not able to make your payments then you'll soon reach the point where your situation will be sufficiently delinquent for you to be considered for a Mortgage Modification. We recommend that even though you'll NOT be making your payments to the Lender, you QUIETLY set aside in a separate savings account as much of your payment as possible to begin building a contingency account for whatever the future brings. While you're waiting to meet the delinquency requirement, you should be in frequent contact with your Lender keeping them advised of your status and of your pending request for their Mortgage Modification.

<u>Step 4 – Decide on the Terms and Conditions to Propose</u>

Before you can put your proposal package together you'll have to determine the specifics of what you'll be asking for so you can influence the Lender's evaluation process. There are essentially four (4) variables in a mortgage that are open to modification: the interest rate, the manner of charging the interest (fixed rate or variable), the outstanding balance and the repayment term. Here's the way to go about determining your specific proposal:

- If you have a variable rate mortgage, you'll want to propose a fixed rate for the entire term of the modified mortgage. Most modified interest rates tend to be fixed for about the first five years with gradual increases up to a conservative lifetime cap of no more than about two or three percentage points above the starting rate.

- Regarding a new interest rate, you won't be able to propose some ridiculously low rate and expect it to be approved. The Lender will be looking at their return verses the alternative of foreclosing and taking away your home. If the interest you want them to charge you is too low, then the alternative of foreclosing becomes more attractive. A good rule of thumb is to go on the Internet and find out what the LIBOR one-year index is and add at least 2 percentage points to that index to arrive at an interest rate the Lender will favorably consider. If this amount results in a monthly payment that's still too high for your budget, you could propose that the Lender suspend your interest charges for a period of 3 to 5 years and resume with a fair interest rate thereafter for the remainder of the term. In 3 to 5 years your cash flow problems will hopefully be ancient history and you'll be on your way to recovery. Maybe they don't approve the requested 3 to 5 years but will approve a shorter term, say 1 to 2 years. Any reduction will be helpful you get reset.

- The Lender may want to add all your arrearage including late fees and any related foreclosure costs, onto the back end of your mortgage. Your position should be that you don't want to have a mortgage balance more than 90% of the current appraised value. That's a reasonable proposal. Therefore, it will be necessary in many cases for the Lender to consider forgiving a portion of the outstanding balance in order to bring the new arrangement into proper balance. If the Lender isn't willing to do this, the borrower should consider a different option instead of subjecting themselves to a new mortgage that will be out of balance for years to come. The next most intelligent option would probably be a Short Sale but unfortunately many borrowers are settling for modified loan balances that are way too high and not WISE simply because they're emotionally tied to their houses. The truth is this: most of the time it will be very difficult to arrange for a reduction of the principle balance; the Lender would rather reduce the interest rate and/or extend the repayment term even up to 40 years.

- No matter how much time is remaining on your existing mortgage, you'll want to propose a new 30-year term. If your Lender is open to it, you could even propose a 40-year term. The longer the term the lower your monthly payment will be. If down the road you want to pay it off ahead of time, you could make extra principle payments but the objective for right now is get the lowest possible monthly payment for the modified mortgage and save your home from foreclosure.

Step 5 – Assemble Your Loan Modification Application Package

Your Loan Modification Application will consist of several documents and forms. There is no universal package that all lenders use but the package outlined in this Report is an approximation of most of them. If some changes are needed or if the information is requested in some special format, the adaptation is easy and you'll be way ahead of the game by preparing the following package. Examples of all forms have been included with this Report.

PROPOSAL PACKAGE:

- ✓ Request for a Loan Modification (Hardship Letter)
- ✓ Personal Information Summary
- ✓ Financial Information Affidavit
- ✓ Supplemental Information Questionnaire
- ✓ Borrower's Authorization Form

ATTACHMENTS:

- ✓ Last two years Form 1040 Federal Income Tax Returns
- ✓ Pay Stubs for the last two months (each borrower)
- ✓ Bank Statements for last six months
- ✓ Copy of recent mortgage statement from your Lender
- ✓ Copy of your Homeowner Insurance Policy
- ✓ Copy of your Driver License

Following are a few clarifying comments about several of the forms:

1. <u>Request for a Loan Modification</u>

This form is actually a letter and is referred to in the financial industry as the "Hardship Letter." To summarize the previous discussion you should explain in this letter the main reasons you've not been able (or will soon not be able) to make your mortgage payments on time. The objective is to establish a basis for "hardship" that the Lender will be unable to ignore and that the "hardship" has emerged outside of your control due to factors you are making them aware of. The example letter on Page 32 mentions a number of possible causes; select the ones that fit your case. One that is not mentioned in the example is a medical problem. Make the letter fit your situation AND KEEP IT TO A MAXIMUM OF ONE PAGE however you have to do it. DON'T GET INTO A LOT OF PERSONAL DETAILS about your situation; limit your approach to the straight forward outline you see in our example. The Lender will be looking for your Hardship Letter <u>from the beginning of their review process</u> and you want to make it easy for them to comprehend your situation as quickly and directly as possible.

2. <u>Personal Information Summary</u>

This form presents some basic information about you that the Lender will need to establish and corroborate who you are, to identify the property that is the subject of your proposal and to verify the details of your relationship with that Lender. It's a straight forward form so just present the information as requested. Typing is better than hand writing but if you have to prepare it by hand, you need to be sure your HAND WRITING IS LEGIBLE. You're preparing a proposal package to a financial institution and if they can't read it, you don't even have to guess what will happen to your proposal if there others on the same person's desk that are clear and legible. Use wisdom and be guided accordingly.

Most Lenders will probably have their own Summary or Application form but others may be happy to use what you submit with your proposal package just to keep things moving. Be flexible and expect the Lender to require their own forms at some point in the process.

3. Financial Information Affidavit

This form will summarize your CURRENT financial situation. It has also been referred to as a Financial Worksheet. It's very important that you make every effort to be accurate in the reporting of your personal financial information. An Affidavit is a statement of truth that's made under oath. You would be amazed at the number of false statements many people try on Lenders in the belief they won't be found out. But the Lenders have seen it all before. The best policy is to tell the absolute truth about your finances and let things fall out accordingly. If you misrepresent yourself and it's discovered during the review process, which is a high probability, your proposal will be immediately discarded and your foreclosure put on the fast track. And by the way: it's against the law (fraud) to misrepresent your financial situation to a Lender.

When preparing your financials keep in mind the various guidelines we have presented in other parts of this Report. Your Lender will want to see that you will have the ability to pay what you're proposing. Almost half of consumers who have received Loan Modifications since 2008 defaulted on them within the following 12 months. So Lenders have taken steps to reduce the incidence of "repeat offenders." If you have a lot of credit card debt on top of your mortgage problem, you'll need to state in your proposal that you're willing to reduce or suspend payments to your unsecured creditors if necessary to insure that your mortgage is maintained current. And you should make your budget come out to about a breakeven by reducing living expenses where you have to. Most families DO NOT live by a budget as we have already stated elsewhere in this Report, but if you expect your Loan Modification Proposal to be approved you'll have to demonstrate a willingness not only to live by a budget but <u>to lower your previous standard or living as necessary to make your budget come into balance</u>.

4. Borrower's Authorization Form

You will need to use this form only if you employ the services of a professional third party to present and mediate your loan modification proposal for you. This form "authorizes" your Lender to release personal and financial information about you and your family to the third-party representative as needed to pursue the mediation. You would not need to include this form if you intend to conduct your own negotiations.

5. Send the Proposal Package

Now you're ready to assemble your package and send it by overnight delivery to the person in the Loss Mitigation Department you've made contact with. Be guided by a sense of urgency to gather together the information you need and complete the proposal package as soon as possible. Then just before you send it, be sure to follow up to let your Lender contact know that you're sending your package and then follow up the next day to confirm that the package arrived.

The blank forms you will need for your proposal package follow this section. They're numbered just under the title so you won't lose track. They are generic forms in the sense that they have been designed to fit most of the requirement for most situations. Feel free to adapt them as appropriate to express your particular situation as accurately as possible.

After that you'll be competing for the time and attention of the employees in the Loss Mitigation Department. If your package is professional, complete and if your proposal has been clearly presented, you'll have an advantage. After your package arrives in the Loss Mitigation Department, you'll want to call your contact at least weekly requesting updates on the progress of your proposal. The concept of "the squeaky wheel gets the grease" applies in this scenario and while you don't want to be a pest, you DO want to push your proposal through the Lender's system and achieve your objectives. Every time you call, request your contact to note in the company's computer system that you've made another inquiry and that you're eager for your proposal to be reviewed and accepted.
Keep in mind that while you're not making monthly mortgage payments, the foreclosure process is probably being carried out independent of your

proposal. In other words, a foreclosure process is likely to be initiated and be running concurrently in parallel with your Loan Modification Proposal. Don't worry about it; just follow up your proposal as suggested so it progresses ahead of the foreclosure process. Our experience says: DO NOT FAIL TO MAKE YOUR WEEKLY FOLLOWUP CALL. It is probably the most important part of the process. Lenders will not be calling you with updates. You must do that yourself and stay on top of your proposal to be sure it is progressing through their system.

In this section of the Report you have all the information you need to put together your own Loan Modification package. Your reaction may be that this is a lot of work and you're right: it's an extensive process and it won't be easy to keep your home out of foreclosure. You are after all asking your Lender to refinance a mortgage that you previously told them you could pay. If the effort you see described here is not worth at least $1,500 or more to you than by all means find yourself a reputable professional who can do the work for you.

But if you don't have the money for their fees then it's a moot point. Isn't it? If you don't have the funds to hire a professional, then your only choice is to do it yourself and by following the suggestions we've laid out, you WILL be able to do it. Don't sell yourself short; you have way more ability than you think you have if you're like most people. This Report would not have been written if there weren't many, many people just like you who're fully capable of carrying out this assignment in good order. And don't forget: by acquiring this Report, you have the right to call *Make A Way Ministries* and ask for help. Just call us toll free during normal working hours at 1-800-357-4223.

PROPOSAL PACKAGE FORMS:

In the remainder of this section (Chapter Four) you will find five basic generic forms to use in the assembling of your Proposal Package. The following forms have been included:

Form 09-01 Request for a Loan Modification (Example Hardship Letter)
Form 09-02 Personal Information Summary

Form 09-03 Financial Information Affidavit
Form 09-04 Authorization to Release Information (for third parties)

REQUEST FOR A LOAN MODIFICATION

(Example Hardship Letter Form 09-01)

Date:

Borrower Name:
Address:

Re: Loan Number and Property Address

Attention: Loss Mitigation Department

Please be advised that we are applying for a modification of the subject mortgage because of a personal hardship situation that has resulted from the following causes:

- A significant reduction of the appraised value of our property
- An increase in monthly payments due to interest rate increases
- An inability to refinance this property in order to obtain an affordable monthly payment
- An inability to find a buyer due to a high inventory of similar properties in our market
- Less than expected family income due to the present condition of the economy

We have also determined that it is highly unlikely that the current rental market in our area will be able to produce a tenant in the foreseeable future that would be willing and able to pay a rental sufficient to cover the PITI obligation required to keep our mortgage on a current basis.

Based on these unavoidable factors outside of our control, it is requested that you review the attached loan modification proposal package which includes all relevant personal financial and property information to facilitate your consideration.

You will find that we are requesting a reduction and related deferment of interest and/or principal in connection with the amended and modified note. In this regard, it serves the interest of all parties in the current real estate and financial markets to preserve the integrity of the bank’s note and collateral through the proposed loan modification in order to avoid further delay and more costly loss mitigation alternatives including foreclosure, forced sale, real estate vacancy, etc.

I will greatly appreciate your serious consideration of the following key modified terms and conditions as expanded on further in the attachments to this letter:

- Reduce the interest rate to 4 percent for a specified period to be determined
- Reset the outstanding principal balance to no more than 90 percent of the current appraised value
- Establish a new mortgage repayment term of 30 years

Thank you for your consideration of this request. We look forward to your questions and comments in the near future.

Respectively yours,

John Q. Borrower

PERSONAL INFORMATION SUMMARY

(Proposal Package Form 09-02)

BORROWER INFORMATION:

First Name:____________________________ Last Name:___________________________

Address: ____ Unit # __________________

City:____ State: ______ Zip:_________

Mailing Address (if different): ____

Home Phone: ( ) ________ - ___________ Cell: ( ) ________ - _____

Work Phone: ( ) _________ - ___________ Fax: ( ) ________ - _____

Email #1: _______________________________ Email #2: __________________________

Social Security No: ______________________ Date of Birth: _______________________

Employer #1: ____________________________ Position:___________________________

Years with Employer #1: __________________ Employer #1 Phone: ________________

Employer #2: ____________________________ Position: ___________________________

Years with Employer #2: __________________ Employer #2 Phone: ________________

CO-BORROWER INFORMATION:

First Name: ___________________________ Last Name:___________________________

Mailing Address: ____ Unit # ____________

City: ____ State: ______ Zip: ________

Home Phone: ( ) ________ - ___________ Cell: ( ) ________ - ___________

Work Phone: ( ) _________ - ___________ Fax: ( ) ________ - ___________

Email #1: ________________________________ Email #2: __________________________

Social Security No: ______________________ Date of Birth: _______________________

Employer #1: ____________________________ Position: ___________________________

Years with Employer #1: __________________ Employer #1 Phone: ________________

Employer #2: ____________________________ Position: ___________________________

Years with Employer #2: __________________ Employer #2 Phone: ________________

MORTGAGE PROFILE (related to recommended modification):

Address: ______________________________ Unit #: ____________

City:______________________________ State: _____ Zip: _______

Home Phone: (   ) ________ - __________ Cell: (   ) ________ - __________

1st Lender: ____________________ 2nd Lender: ____________________

1st Lender Mtg. Payment (PI): __________ 2nd Lender Mtg. Payment (PI): __________

1st Loan No: ____________________ 2nd Loan No: ____________________

1st Interest Rate:_______% (Fixed) (Arm) 2nd Interest Rate: ______ % (Fixed) (Arm)

1st Date of Loan: ____________________ 2nd Date of Loan: ____________________

1st Date of Last Payment: ____________ 2nd Date of Last Payment: ____________

Annual Taxes:____________________ Escrow (yes/no): ____________________

Annual Insurance: ____________________ Escrow (yes/no): ____________________

1st and 2nd Total Monthly PITI: __________

Property for Sale (yes/no): ____________ Property for Rent (yes/no): ____________

Listing Date & Price: ______________ Amount of Monthly Rent: ____________

Realtor Name: ____________________ Date of Last Rent Payment: __________

Realtor Telephone: ________________ Date Rental Lease Expires: __________

FINANCIAL INFORMATION AFFIDAVIT

(Proposal Package Form 09-03)

Borrower Name: ____________________

MONTHLY INCOME

Borrower:		**Co-Borrower**	
Gross Wages		Gross Wages	
Net Wages		Net Wages	
1099 Earnings		1099 Earnings	
Rental/Other Investments		Rental/Other Investments	
Alimony/Child Support		Alimony/Child Support	
Pension/Social Security		Pension/Social Security	
Unemployment/Other		Unemployment/Other	

MONTHLY EXPENSES

Tithe/Donation		Ticket/Fare/Travel	
Rent (including storage)		Clothing Purchases	
Mortgage(s)		Health Insurance	
2nd Mtg./Equity Loan		Doctor/Dentist Visits	
Property Taxes		Prescriptions/Vitamins	
Property Insurance		School Tuition	
Home Maint./Condo Fees		Books/Miscellaneous	
Electricity/Gas		Child Care	
Water/Sewer/Garbage		Entertainment/Dining	
Hotel/Vacation Lodging		Health Club/Hobbies	
Groceries		Subscriptions	
Lunches		Tobacco Products	

Home Phone/Cell Phone		**Presents and Gifts**	
Internet		**Dry Cleaning/Laundry**	
TV/Cable Services		**Hair Cuts/Personal Care**	
Car Payment (1)		**Pet Care**	
Car Payment (2)		**Alimony/Child Support**	
Gasoline/Tolls		**Life Insurance**	
Auto Insurance		**Savings/Investments**	
Repairs/Oil Changes		**Miscellaneous/Other**	

- Property Taxes and Homeowners Insurance should not be itemized if the mortgage payment includes the related escrows. If the mortgage payment does not cover taxes and insurance, those costs must be itemized where provided by dividing the annual total by 12 to equal a monthly allocation.
- Items such as car repairs, vacations, clothing and gift expenses can be calculated by dividing the annual total by 12 to equal a monthly allocation.

TOTAL COMBINED INCOME =

TOTAL EXPENSES =

SURPLUS TO PAY DEBTS =

TOTAL VALUE OF ASSETS

Cash on Hand

401 K

Savings

Securities

Checking

Other Real Estate

TOTAL ASSETS

LIABILITIES

	Monthly Payments	Total Balances
List Other Secured Debts:		
______________________		
______________________		
______________________		
TOTAL OTHER SECURED DEBTS		
List Unsecured Debts:		
______________________		
______________________		
______________________		
______________________		
______________________		
______________________		
______________________		
______________________		
TOTAL UNSECURED DEBTS		

AUTHORIZATION TO RELEASE INFORMATION

(Proposal Package Form 09-04)

To Lender: ______________________________ Date: ______________

Loan/Account Number: ______________________

Property Address: _________________________ State: ____ Zip: _____

The below signed hereby authorize(s) you to release to _____________________ its agents and assigns any and all information that they may require regarding the transfer or payoff of my/our loan account for the above-reference property and/or to help me/us with my/our request for a LOAN MODIFICATION and LOSS MITIGATION on the above-referenced mortgage note.

This Authorization will endure for one year from sign date, unless revoked by me/us in writing.

You may reproduce this document to acquire reference from more than one source.

Authorized Signature(s):

(1)____________________________ ________________ ________

Borrower Signature **Social Security #** **DOB**

____

Printed Name

(2)____________________________ ________________ ________

Co-Borrower Signature **Social Security #** **DOB**

____

Printed Name

FIVE: OTHER OPTIONS YOU SHOULD KNOW ABOUT

As you probably know, a Mortgage Modification is only one of the options available for dealing with the foreclosure process. It's been the most publicized and probably the most popular as well because most people want to stay in their homes and the banking industry is geared up (as much as they're going to be) to take someone through a modification process. Many of their employees you'll have to deal with haven't been adequately trained and you can get one answer to a question on one call and another answer from some other banking rep on the same day. This is just something you will have to deal with and if you don't get the right answer to something on the first try, don't be afraid to hang up the phone and call back to speak to another rep.

In any event, you need to know that a Mortgage Modification is not your only alternative for avoiding foreclosure even though it's the main focus of this publication. Therefore, following is a brief discussion on each of the other major options:

1. Refinance the Mortgage

For this option to be possible you'll have to still have equity in your home which means that it's appraised value is higher than the outstanding balance of your existing mortgage. If you've not yet defaulted on your mortgage payments you'll need a FICO Score of 620 and residual equity of 5-10 percent of the appraised value AFTER it's refinanced for an FHA mortgage and a 720 FICO Score with residual equity of 15-20 percent for a "conforming" mortgage.

If you're in the refinance category you should also look into the temporary program called *Making Home Affordable Refinance Program*. It's called HARP and you should be able to find out more information at the following official web site:

www.makinghomeaffordable.gov.

But for now, here are the basics for how it works:

- All loans refinanced under the plan have a 15 or 30-year term with a fixed interest rate.
- The refinanced loans will have no prepayment penalties or balloon notes.

In order to qualify for HARP Refinance, homeowners must at a minimum:

- Be an owner-occupant in a one-to-four unit property
- Have a loan owned or controlled by Fannie Mae or Freddie Mac
- Be current on mortgage payments
- Have a mortgage that is the same or slightly less than the current home value
- Have a stable income sufficient to support the new mortgage payments

Homeowners interested in a Home Affordable Refinance should contact their lender directly to see if they qualify or if this "temporary" year-to-year Program is still available. If it is no longer available ask about new substitute refinance programs at both the federal and state levels.

Finally, if you have already missed some mortgage payments, the ratio of your mortgage loan divided by the appraised value of the property must be no more than 60% in order to attract a "hard equity lender." The interest rate will be high therefore the mortgage payment would likely increase. So it should be determined first whether the new mortgage payment will even be affordable.

2. Forbearance

The way Forbearance works is that your Lender will agree to give you a temporary time of lower mortgage payments, say 4 to 6 months to give you a chance to catch up. But the difference between the amount of the temporary payment and what the payment should have been during those months will have to be repaid immediately. The way it typically works is that after the temporary period of lower payments, your payment will go back to what it was before the Forbearance was started PLUS a pro-rata portion of that difference you didn't have to pay. So, after the temporary period of lower payments, your mortgage payment will actually be higher for some specified period of time than it was before you entered the Program because you'll be paying back the amount of the Lender's concession over say six months or however long a period of time you were able to negotiate.

This would be a good program if your payment problem is only temporary and you expect to get back to normal after a few months. It won't work for long-term problems but Lenders will try to get you to accept this when you first call them if you're not informed and watching out for what they're recommending to you. MANY consumers have enrolled in Forbearance Programs only to find out later that when it's over in a few months they're expected to start paying back the difference.

3. Negotiate a Mortgage Modification

As we've already discussed, for many foreclosure cases a "modification" of the mortgage will be a very viable option whereas in a historically "normal" real estate market it wouldn't even be possible. In sum this approach results in the loan being <u>permanently</u> rewritten or "modified" and the amount in arrears is usually added to the back end of the mortgage which serves to INCREASE the loan amount outstanding. Your monthly payments will be lower but your total debt will be greater.

Mortgage Modifications in the current environment USUALLY include a reduction of the interest rate for a period of at least three to five years or even permanently so the borrower can have an opportunity to re-establish financial health. Lenders are also converting variable rate mortgages to fixed rates which borrowers should go along with and eagerly pursue. And, they're also extending repayment terms from the usual 30 years to 40 or even higher depending upon the situation.

But it has been very difficult to get Lenders to go along with reductions in the outstanding mortgage balance even though it occasionally happens. Nevertheless, it should be a part of your modification proposal to request a reasonable reduction as described in the previous chapter so that the Lender will have to turn down that part of your proposal. Or you may even get it approved.

But if you aren't able to achieve a balance reduction, you'll need to consider something very important: not only will you owe the outstanding balance you had when you started missing your payments, you will have ALL of those defaulted amounts including late fees and interest and penalties added onto the end of your mortgage meaning that even though your present payments are affordable, <u>your outstanding balance will be substantially higher than it was before you defaulted</u>. This means that for some mortgage modifications the family will temporarily owe the bank more than the house is worth. Such houses are referred to as "upside down" or "under water" and you should keep in mind that those houses will not be able to be refinanced for years to come until you have equity again. AND also, if you should ever need to sell the property while it's still "upside down," you'll have to pay the deficiency most likely in full in order to close the sale.

Many families during the Recession made decisions to modify their mortgages out of emotion and unwillingness to give up their "under water" homes. That left them in total bondage to their lenders where they stayed for years until the real estate markets could make their gradual recovery. Folks need to consider this option without emotion to be sure they understand what they're getting into and that they really, really are ready to handle what comes with a Mortgage Modification when there are other and certainly more economic options available. Consider all of your options before you decide.

You may even decide to go through an attorney for assistance even though it could be quite a bit more expensive. But the truth is, some cases are more complex and would benefit from an attorney especially if you have already received a SUMMONS from the Court advising of your Lender's

Motion for a Foreclosure Judgment against you. Attorneys are great at using delaying tactics also called FORECLOSURE DEFENSE while you're waiting for the Lender to approve your Loan Modification.

4. Negotiate a "Short Sale" with the Lender

The borrower can determine if the Mortgage Lender is willing to consider a "short sale". A true Short Sale is where the property is sold to a third party for less than what you owe and the Mortgage Lender agrees to forgive the balance. There is no deficiency balance if it's a true Short Sale. The borrower will have to provide documentation to prove hardship for the Mortgage Lender to be willing to consider this option. One major point is that any balance written off by the Mortgage Lender will be reported to the IRS via Form 1099. This is considered miscellaneous income that must be filed with the borrowers Tax Return but IRS is likely to "forgive" the additional taxes on this type of "income" for on foreclosure avoidance on family residences. Short Sales have been a popular approach for defaulting homeowners who're severely upside down. But <u>be sure</u> to consult your tax professional on the subject of the related 1099 income.

Also, in most Short Sale scenarios it will be necessary to list your home for sale through the local Multiple Listings for a period of time. The Lender will require it as part of a due diligence process to determine the real market value of your property. You should seek out a real estate agent who has had experience with Short Sales because there are many good agents who have no idea how to negotiate Short Sales. They will need the skill and experience to negotiate with prospective buyers <u>AND with your Lender</u> in order to close a sale so don't just list you home with anybody.

In addition, you should know that Lenders tend to be VERY slow to consider and approve Short Sale offers so you should be prepared for a drawn out process including the loss of some buyer prospects because the Lender doesn't react quickly enough.

By the way there is no reason why you can't apply for a Mortgage Modification at the same time you're trying to pursue a Short Sale. If anything it will serve to delay even more the Foreclosure Process we discussed at the outset that's progressing in parallel with all your defensive efforts.

5. Negotiate a Deed in Lieu of Foreclosure

If the borrower has come to the point of being unable to continue making payments and hasn't been able to sell the property, which in most cases is due to the debt owed on the property being too much higher than the appraised value, it can be suggested to the Mortgage Lender that it take a "deed in lieu of foreclosure." In this arrangement the title to the property is transferred to the Mortgage Lender in exchange for the Lender's agreement to forego the foreclosure proceeding and to not pursue a deficiency judgment against the borrower. A particular Lender may be more receptive to this option if it perceives that the Borrower is prepared to find an attorney and resist the Lender's foreclosure process. It will be up to you to make your Lender aware that you know what your options are and that you will employ an attorney if you need one to protect yourself. Borrowers need to demonstrate that they're knowledgeable!

Not all Lenders will accept the deed in lieu of foreclosure alternative, especially if the borrower has other assets and the Lender believes it can collect against a deficiency judgment. Also, most Lenders would prefer not to own real estate especially when the value of the property is less than the amount of the mortgage. On the other hand it may be a very attractive alternative if the creditor is a private Lender who is the person from whom the borrower purchased the property. The original seller would then possess the property to sell again and would also have the benefit of keeping the original down payment the borrower paid when purchasing the property.

It's suggested that the borrower seek the assistance of an experienced Real Estate attorney in negotiating this option with the Lender. They may even be able to negotiate the possibility of allowing the borrower to live in the property for a certain period of time after the transfer of title back to the Lender has been concluded.

Finally, although a deed in lieu of foreclosure prevents the foreclosure process, it is recorded in the local public record and is therefore eligible for reporting to the credit bureaus. But whatever the report is to the credit bureaus, the truth is it will be more favorable than a foreclosure.

6. File Chapter 13 Bankruptcy

This is the principal legal action that can be taken by a borrower that will usually stop the foreclosure temporarily. By declaring bankruptcy, a foreclosure is stopped in its tracks because an “automatic stay” stops creditors from attempting to collect the consumer’s debts. Even though the Mortgage Lender could eventually have the automatic stay lifted, by that time the Bankruptcy Court will hopefully have proceeded to develop a repayment plan and the house should be covered in the plan.

The fact is a Chapter 13 bankruptcy provides a reasonable basis to work out a repayment plan for the mortgage arrearage. The way it would work is that a payment would have to be made to the Court Trustee monthly for a three to five year period sufficient for the mortgage arrearage to be paid off. However, Chapter 13 bankruptcy will also force the consumer to include all other unpaid debt in the plan. Whatever monthly payment is calculated by the Court will also include prorated bankruptcy attorney’s fees and the Court Trustee monthly commission over and above the established mortgage payment. This total payment must be maintained for the entire term of the Chapter 13 plan which is typically five years.

If the payment plan can’t be maintained the borrower can always move on to a Chapter 7 bankruptcy but that would not allow the home to be saved because a Chapter 7 does not provide an opportunity to make up the mortgage arrearage and/or to get back on track as a Chapter 13 does. It’s true that Chapter 7 WILL protect your home if the mortgage is up to date but not if it’s in default and the owner is not able to cure it going into the bankruptcy.

In any event, some families were gladly including their homes in Chapter 7 after the Recession because their mortgages were severely upside down and the bankruptcy got them permanently out from under the future hassle and potential obligation of a deficiency. As already discussed, an upside down mortgage is when the family owes more than the home is worth. When that deficit becomes too great, it makes more sense to include the home in the bankruptcy and then start looking for a new and better one a couple of years after the bankruptcy.

7. Hire an Attorney for Foreclosure Defense

In the event that the foreclosure process reaches the point where the Lender finally presents a motion to the Court for a Foreclosure Judgment against you, you could consider the use of an Attorney. You will know it has gotten to this point when you receive a Summons from the Court naming you as the Defendant is a related Civil Lawsuit that the Lender will have placed before the Court. The Summons will usually give you something like 20 or 30 days to present an answer and you should consider taking the Summons immediately to an attorney who is experienced in the discipline of foreclosure defense. Even if you can't afford an attorney you should provide some kind of answer yourself within the 20 or 30 days because failure to answer will result in an automatic decision against you.

You can simply write a letter to the Court and present it to the Clerk of the Court a day or so before the end of the 20-day period. Just the presenting of your letter will delay the process by a month or two. Your letter could mention some of the following legal points:

- Request evidence from Plaintiff that it is legally established to bring suit against you.
- Request evidence from Plaintiff that it possesses legal title to the note and mortgage they claim you entered into.
- Request Plaintiff to produce copies of the original documents of indebtedness.
- Request evidence from Plaintiff that the chain of title of the original documents of indebtedness can be reconstructed from the date you entered into the mortgage until the present.

- Request the Court to allow time for you to review all of the documentation you are requesting in view of well know allegations of impropriety by the banking community.
- Request a detailed accounting in writing of the amount the Plaintiff is suing you for.

At this point your objective should be to delay the legal process while you are continuing to pursue your Mortgage Modification or Short Sale or some other option. The more you can slow down the Court the greater the chance that your Lender will approve one of the options. Attorneys can be expensive but they usually won't cost as much as the mortgage payments you're no longer paying so just about everybody should be able to afford one within reason. Most attorneys charge a retainer up front of say from $1,000 to $2,000 plus an ongoing monthly payment ranging from say $150 to $650. As you can see it will cost you some money so you should be serious about wanting to retain possession of your house. In other words before you spend all that money for an attorney be sure that what you wind up with is going to be a good deal for you and not one of those upside down situations that will put you in bondage for the next 10 to 20 years.

Now in concluding this section we need to make it very clear that the publishers of this Report are not attorneys and that therefore what you read here should NOT be interpreted or construed as legal advice. The information presented in this entire Report is available to the public on the Internet. You should go to an attorney if you require legal advice and we are clearly recommending that if you are served a SUMMONS from a Court you should seek the counsel of an attorney that is experienced in matters of foreclosure defense.

SIX: WHAT ABOUT THE GOVERNMENT PROGRAMS?

On February 18, 2009 the federal government enacted an initiative to bring financial stability to the national housing market. This legislation is called "The Making Home Affordable Program (MHA)." The government originally estimated that nine million people/families with mortgage problems would be rescued from foreclosure through this program and approximately 75 billion dollars was initially set aside for this purpose.

In this section of our Report we've provided a summary of the HIGHLIGHTS of this program because while many people should have been able to avoid foreclosure by using it, so far it has actually helped WAY fewer people than was originally anticipated. You could waste a lot of time only to find out that you're chasing a <u>Program that is likely to decline you</u>. To understand this program you first need to know that it originally consisted of two parts:

- Home Affordable Modification Program (HAMP)
- Home Affordable Refinance Program (HARP)

The first program was discontinued on December 31, 2016 and replaced by the Freddie Mac Flex Modification Program (FMMP). Here are a couple of links leading to information about this program.

https://www.knowyouroptions.com/modify/flex-modification
http://www.freddiemac.com/learn/pdfs/service/flex_mod_ref_guide.pdf

The first link will lead you to the Fannie Mae website called *Know Your Options* of which the FMMP is one of the options. The second link leads to a Freddie Mac PDF article describing the program for Lenders. This stuff is complicated so reduced to its essentials, you will need to be at least two months delinquent to qualify plus your mortgage has to be a Fannie Mae or Freddie Mac conforming mortgage. So, there is a limited universe for this program. The thing to do is call your Lender as soon as possible when your problem develops and find out if you qualify. Part of the qualifications to be considered in addition to the type of mortgage you have is nature of your financial hardship that caused you to become delinquent. The guidelines are tough and tend to focus on medical problems in your family or job scarcity or disability, etc. If you do not qualify for this program, most lenders have their in-house modification programs which is when you would turn to the guidelines previously discussed in this report.

We previously discussed the HARP Program so we won't repeat it in this Chapter. In sum, it's a program to refinance one's home but it can't help people who have negative equity or those who have already defaulted on their mortgage. Look for discussions for it on line.

The government isn't offering much these days (mid 2018). The economy is doing well and when there is no economic crisis, our governments are off attending to others problems they helped create. Also, you will probably find when you contact your Lender to ask about the Flex Program that their reps don't know very much about it because there hasn't been a "great enough" need for it lately. If you don't seem to be getting anywhere with your Lender, we suggest calling the following non-profit agency to represent you and help you obtain the information you need:

GreenPath Debt Solutions
866-260-2673

www.greenpath.com

SEVEN: HOW TO COME OUT A WINNER EVEN IF YOU LOSE YOUR HOME

Normally, the principal objective of a strategy for "overcoming" foreclosure is to develop an arrangement with the Lender that will allow you to retain long-term possession of your home. For most families the idea of being forced to move out is a repugnant possibility they're trying desperately to avoid. People consider their homes to be their "castles" to hold onto no matter what and so they blindly pursue that objective without considering the economic interests of the family.

But as we've already pointed out in this Report, holding onto a bad deal just for the sake of holding on can be a REALLY bad economic decision and can put one's family at an economic disadvantage for perhaps a decade or more. This is a question that needs to be looked at in the very beginning stages as your problem is developing even before you're faced with the imminent act of defaulting on your first mortgage payment. And you must look at this question rationally and objectively instead of stubbornly pursuing long-term possession of your home as the automatic base case. IT SHOULD NOT BE AUTOMATIC.

The reason families make mistakes in their thinking in this area is that they've developed an EMOTIONAL attachment to their homes. They've become accustomed to them like a set of comfortable old shoes they don't want to throw out. In a sense they've become co-dependent and have difficulty seeing themselves in some other perhaps better environment. What they're failing to appreciate is that a home is the central and most important asset of a family "business" that needs to produce a profit and an attractive return on investment or be replaced. Family cash flow must be positive and the return on capital investment (the home) should be attractive or the family can't survive financially in the long term.

We've now come to a time in history when real estate values have pretty much recovered the significant reduction experienced all across the nation during the Recession. Millions of families took on additional debt during the Recession that is still connected to their houses. This would be a good time while things are better to re-evaluate your situation to determine if you can unload an unattractive long-term obligation. What if you could cash out your over-burdened home and find a better deal at some other location with lower monthly payments? What if you could find a fixer-upper or an opportunity in an area where real estate values are likely to grow faster than where you have your home presently?

Many families who go through this exercise will be surprised to find out that they would be better off to unload their current properties and find something more streamlined. If you come to that conclusion early enough in your situation, you won't be wasting your valuable time and energy chasing the wrong dreams and you can focus on how to WIN what's best for your family.

If you are experiencing a current problem, the point in this chapter is to look at ALL your options including letting go of a particularly unfavorable situation. Don't just automatically pursue an expensive solution that will strap you into some unfavorable long-term obligation just because you and your spouse think you are in love with your home. Maybe God has a better home for you! Maybe God has a more favorable situation for you!

As we've already seen in Chapter 5 of this Report, there are essentially two principal ways the Lender can take possession of your home, with your permission of course, instead of going all the way through the foreclosure process. One is a "Short Sale in Lieu of Foreclosure" and the other is a "Deed in Lieu of Foreclosure." Please don't lose sight of the main objectives of these two options:

1. To stop the foreclosure process so you won't have "foreclosure" counting against your credit history.

2. To unload a property that's no longer economically attractive TO YOUR FAMILY.

3. To bring an end to your economic responsibility for this property in a way in which the Lender agrees NOT to pursue you in the future for a deficiency in the repayment of your current mortgage balance.

Ask yourself this question: what would make your Lender willing to accept either of these options instead of pursuing you all the way through the foreclosure process to the end? Here are the main answers:

- Your Lender would likely accept your proposal of either of these options if it saw that your foreclosure process, your particular foreclosure process, was going to be unusually expensive and time consuming. The Lender needs to know from you by subtle exposé shall we say, that you're prepared to do whatever you have to in order to draw out the process so your family can continue to live in their "beloved homestead" for as long as possible. We've given a lot of ideas in other places of this Report that could convey this mind set to your Lender.

- Your Lender would likely accept your proposal of either of these options if it saw early in the process that you would be unable to make the payments under any form of mortgage modification. Your financial information will demonstrate your expected cash flow and future payment capability. For this reason we have strongly recommended that these options be pursued EARLY in the process instead of later because if you wait too long the alternative cost of foreclosure decreases and becomes more attractive to the Lender.

Whenever your Lender advises that it is ready to accept one of these two options in lieu of foreclosure, be sure to obtain their agreement to it in writing. You'll probably need such a letter at some point in the future to correct negative information on your credit reports. Also, you might need your written agreement in the event you run across some "forgetfulness" in your Lender's office. It has been known to happen so take reasonable precautions and you won't have a problem.

But what if you're unable to convince your Lender to accept one of these options and they insist on pursuing you through the foreclosure process? How could you come out a WINNER in that scenario? At some point in this story, it's assumed you're going to reach a place where you have to default on a mortgage payment. After 2 or 3 months your Lender will have to demand that you pay all amounts in arrears if you want to avoid foreclosure. For legal reasons, they won't be able to accept partial payments or any amounts less than the full amount of arrearage unless you're able to arrange a Forbearance Program which would probably only represent a short-term "band aid" with higher monthly payments than the original amount you defaulted on.

The point is this: as soon as you default on a mortgage payment if you see that you're going to continue to have trouble making your monthly payments, <u>you should start putting as much of those payments as you can afford into a separate contingency account</u> so you can accumulate funds for a down payment on a new home down the road after the foreclosure on your existing house has been completed. Most families don't do this; they DO stop making their mortgage payments but instead of saving as much as they can, they reallocate their money into other living expense categories that should be re-justified in the light of a new economy.

Friend, the fact that you're having a mortgage payment problem means by definition that you need to adjust your standard of living. You can't continue to live in the current environment like you were living in the former environment. Put some money away in savings and start planning for the future. And by the way, if you're working to delay and string out the foreclosure process as mentioned previously, perhaps your Lender will reach a point where it would be receptive to a lump-sum payment of funds you have saved on the side as an inducement to get rid of you and your foot-dragging and give you the option you had previously requested: a Deed in Lieu of Foreclosure or a Short Sale in Lieu of Foreclosure. Money talks!

In sum, it's entirely possible to be a WINNER but to still lose your home. <u>It may even be desirable to "lose" it</u> if you've done your homework and you find that "losing" it is what's best for your family. Take advantage of your environment instead of letting it dictate to you how you feel and what your financial strategy ought to be. Your economic situation is what it is. We have to adapt to our new scenario instead of trying to force our old ways of thinking and our old ways of doing things on a new way of life. Everything is stacked in your favor if you can see it that way and act on it to your advantage.

EIGHT: SOME FINAL THOUGHTS

We began this E-Report pointing out that Mortgage Lenders would rather not have to foreclose. The reality is that most foreclosures can be avoided if consumers will just use a budget and then prioritize their expenditures with some planning and forethought. If you come to a point where you're not able to pay all your bills but you have enough to pay some of them, the mortgage should always be paid BEFORE anything else because it's a secured debt. After you pay for the house, make your car payment because it's also a secured debt.

If your credit cards can't be paid or if the Cable TV or the telephone service had to be disconnected, it would be much more preferable to do that than allowing your mortgage to become delinquent. You'd be surprised at the number of families *Make A Way Ministries* has come in contact with over the years that were afraid of their credit card companies and kept those folks up to date with money they had from not paying their mortgages. The best way to avoid foreclosure is to never miss a payment so treat your mortgage with the HIGHEST priority.

For those who ARE facing foreclosure though, the good news is there're a number of options you can consider in order to avoid it. You do NOT have to be a victim of foreclosure. Take control of the situation and use your new-found knowledge to your advantage. If you approach your Lender knowing where you stand, confident that what you're proposing makes sense you'll have a great chance to succeed. Don't look at your mortgage problem as some insurmountable catastrophe but as an opportunity to engage an enemy on his ground and come away the WINNER having achieved long-term improvement compared to where you were before.

Now a large part of our ministry is to make available everything we can think of to help you become more knowledgeable about how to be in control of your relationships with creditors, both your mortgage Lender and your unsecured credit card companies. You do NOT have to be a passive victim anymore and you can force your creditors to abide by the law if you know what it says. And so, study to show yourself approved, adopt a specific strategy to get out of debt, take control of your finances and then hold your creditors accountable. You'll soon begin to see significant improvement in your economic condition.

The Need for a Lifestyle Change

Also at the beginning of this Report we talked about the need to change one's thinking and the fact that most people are unwilling to take this absolutely essential step. As a result they stay in the same rut pointing in the same direction that goes to nowhere and continued failure. We pointed out that the Bible confirms that as a man THINKS in his heart (mind), so is he (Proverbs 23:7); so if you're tired of where you are in life, it means you MUST change the way you think about life and about yourself.

The truth is most people try to change their circumstances without changing anything about the way they think. For example, someone may have lived for 40 years of adult life without ever having a budget and he/she tries to make a significant change in his/her financial circumstances stubbornly holding on to the thinking that you don't need a budget. We're telling you from many years of experience that you CANNOT make the financial changes your heart longs for without having a basic financial plan for your family.

Our experience shows further that in order to make a significant change in your financial circumstances you'll have to do three essential things in the process of changing your thinking:

1. You'll have to have a genuine desire to change your life and to change the things you're currently doing in that life. You'll HAVE to do something different and ACCEPT that the old way isn't working.

2. You'll have to stop making excuses for why your circumstances are the way they are. We can always find external reasons for why things are fouled up in our lives, external reasons we SAY we have no control over. But friend, the secret to success in life is to stop

blaming those external reasons, to stop being a victim and to take responsibility for dealing with your circumstances.

3. Thirdly, you'll have to make the change NOW. In other words in order to change your circumstances you'll have to stop procrastinating and postponing the actions, the decisions, that have to be taken.

But even armed with all the information in this Report and even if you become an expert on the subject of Mortgage Modifications in the upper one percent of all consumers in the land, and even if you've changed the way you think about your circumstances, there would still be the most important weapon of all missing from your arsenal. The truth is you don't have to fight this battle alone. In fact, God wants to fight it for you; but for that to happen, you need to come into a relationship with Him and then ask Him for His help.

The way to come into a life-long relationship with the Father Creator of this Universe, according to the Bible the ONLY way (John 14:6), is to acknowledge Jesus Christ as your Lord and to give your life over to Him. If you would like to know Jesus, if you want an opportunity to enjoy a peace in your life that passes all understanding, it's actually quite easy to do. Just say the following prayer, mean it with all your heart and then allow God to take over your life:

Jesus I believe in you and I believe that God raised you from the dead. I acknowledge that my sins are forgiven and I ask you to come into my life today. I receive you as both my Savior AND Lord.

If you were sincere as you prayed this prayer, God has already come into your life and you are a new creation (2 Corinthians 5:17), a totally new species recreated in His image. Now ask the Lord to lead you to a good faith-based, bible-teaching church where you can be equipped to fulfill your potential in the Kingdom of God. Let us know of your decision and we'll be happy to answer any questions. God loves you and so do we.

Now may God bless you and your family and protect you in the midst of any difficult experiences! Thanks for reading this report and we look forward to hearing of your future financial success.