

R W REAL ESTATE, LLC



19 Central Street
Farmington, New Hampshire 03835
603-755-9111
603-755-9115 Fax

Email: rwrealty@worldpath.net

Web site www.rwrealestatehomes.com

The information provided below takes into account some common practices that are not generally published and that are very detrimental to the home owner; to wit:

- The ⁱ Servicer may not choose to initiate a modification if you are current.
- If you are told to miss payments and do, you will still owe that money. If you are denied the modification, you must pay it back or be foreclosed upon.
- Most modifications are denied.
- Many Servicers add back your delinquent payments, interest and penalties resulting in HIGHER PAYMENTS than you originally had; i.e. they simply refinance you to your detriment.
- If you are denied a modification and can't make whole your delinquency, you should consider a short a short sale immediately.
- If you choose to short sale, contact a REALTOR experienced with the short sale process, IMMEDIATELY!
- ANY time you miss more than two payments, the **Servicer may foreclose at ANYTIME!** This is regardless of promise of modification, short sale or other.
- ALWAYS contact a bankruptcy attorney to understand your options. Usually the first consultation is free.

Mortgage modification

Mortgage modification is a process where the terms of a [mortgage](#) are modified outside the original terms of the contract agreed to by the lender and borrower (i.e. mortgagor and mortgagee). In general, any [loan](#) can be modified.

Contents

- [1 Background](#)
- [2 Types of modification](#)
- [3 Federal Home Affordable Modification Program \(HAMP\)](#)
 - [3.1 Program Formed](#)
 - [3.2 Program purpose](#)
 - [3.3 Eligibility requirements](#)
 - [3.4 Terms and procedures](#)

- [3.5 Payments](#)
- [3.6 Transparency and accountability](#)
- [3.7 Warnings](#)
 - [3.7.1 Scams](#)
- [3.8 Resources](#)
- [4 References](#)
- [5 External links](#)

Background

In the normal progression of a mortgage, payments of [interest](#) and [principal](#) are made until the mortgage is paid in full (or paid off). Typically, until the mortgage is paid, the lender holds a [lien](#) on the property and if the borrower sells the property before the mortgage is paid-off, the unpaid balance of the mortgage is remitted to the lender to release the lien. Generally speaking, any change to the mortgage terms is a modification, but as the term is used it refers to a change in terms based upon either the specific inability of the borrower to remain current on payments as stated in the mortgage^[1], or more generally government mandate to lenders. A loan modification will typically result in the change to the loan's monthly payment, interest rate, term or outstanding principal.

Types of modification

Mortgages are modified to the benefit of the borrower in one or more of the following ways:

- Reduction in interest rate, or a change from a floating to a fixed rate, or in how the floating rate is computed
- Reduction in principal
- Reduction in late fees or other penalties
- Lengthening of the loan term
- Capping the monthly payment to a percentage of household income
- Mortgage forbearance program

The borrower can be current, late, in [default](#), in [bankruptcy](#), or in [foreclosure](#) at the time the application for modification is made. The programs available will vary accordingly.

There may be modifications made at the discretion of the lender. The lender is motivated to offer better terms to the borrower because of the expectation that the borrower might be able to afford a lower payment, and that a performing loan (i.e. one in which payments are current) will be more valuable ultimately than the proceeds obtained from a foreclosure sale.^[2]

The state and federal government may structure a mortgage modification program as *voluntary* on the part of the lender, but may provide incentives for the lender to participate. A *mandatory* mortgage modification program requires the lender to modify mortgages meeting the criteria with respect to the borrower, the property, and the loan payment history.

Federal Home Affordable Modification Program (HAMP)

Main article: [Home Affordable Modification Program](#)

Program Formed

February 18, 2009

Program purpose

Home Affordable Modification Program, also known as HAMP, is set out to help up from 7 to 8 million struggling homeowners at risk of foreclosure by working with their lenders to lower monthly mortgage payments. The Program is part of the Making Home Affordable Program which was created by the Financial Stability Act of 2009.^[3] The program was built as collaboration with banks, services, credit unions, the FHA, the VA, the USDA and the Federal Housing Finance Agency, to create standard loan modification guidelines for lenders to take into consideration when evaluating a borrower for a potential loan modification. Over 110 major lenders have already signed onto the program. The Program is now looked upon as the industry standard practice for lenders to analyze potential modification applicants.^[4]

Eligibility requirements

The program abides by the following eligibility and verification criteria:

- Loans originated on or before January 1, 2009
- First-lien loans on owner-occupied properties with unpaid principal balance up to \$729,750
- Higher limits allowed for owner-occupied properties with 2-4 units
- All borrowers must fully document income, including signed IRS 4506-T, proof of income (i.e. paystubs or tax returns), and must sign an affidavit of financial hardship
- Property owner occupancy status will be verified through borrower credit report and other documentation; no investor-owned, vacant, or condemned properties
- Incentives to lenders and servicers to modify at risk borrowers who have not yet missed payments when the servicer determines that the borrower is at imminent risk of default
- Modifications can start from now until December 31, 2012; loans can be modified only once under the program ^[5]

Terms and procedures

- Participating servicers are required to service all eligible loans under the rules of the program unless explicitly prohibited by contract; servicers are required to use reasonable efforts to obtain waivers of limits on participation.
- Participating loan servicers will be required to use a net present value (NPV) test on each loan that is at risk of imminent default or at least 60 days delinquent. The NPV test will compare the net present value of cash flows with modification and without modification.

If the test is positive: meaning that the net present value of expected cash flow is greater in the modification scenario: the servicer must modify absent fraud or a contract prohibition.

- Parameters of the NPV test are spelled out in the guidelines, including acceptable discount rates, property valuation methodologies; home price appreciation assumptions, foreclosure costs and timelines, and borrower cure and redefault rate assumptions.
- Servicers will follow a specified sequence of steps in order to reduce the monthly payment to no more than 31% of gross monthly income (DTI).
- The modification sequence requires first reducing the interest rate (subject to a rate floor of 2%), then if necessary extending the term or amortization of the loan up to a maximum of 40 years, and then if necessary forbearing principal. Principal forgiveness or a Hope for Homeowners refinancing are acceptable alternatives.
- The monthly payment includes principal, interest, taxes, insurance, flood insurance, homeowner's association and/or condominium fees. Monthly income includes wages, salary, overtime, fees, commissions, tips, social security, pensions, and all other income.
- Servicers must enter into the program agreements with Treasury's financial agent on or before December 31, 2009.^[5]

Payments

- The program will share with the lender/investor the cost of reductions in monthly payments from 38% DTI to 31% DTI.
- Servicers that modify loans according to the guidelines will receive an up-front fee of \$1,000 for each modification, plus "pay for success" fees on still-performing loans of \$1,000 per year.
- Homeowners who make their payments on time are eligible for up to \$1,000 of principal reduction payments each year for up to five years.
- The program will provide one-time bonus incentive payments of \$1,500 to lender/investors and \$500 to servicers for modifications made while a borrower is still current on mortgage payments.
- The program will include incentives for extinguishing second liens on loans modified under this program.
- No payments will be made under the program to the lender/investor, servicer, or borrower unless and until the servicer has first entered into the program agreements with Treasury's financial agent.
- Similar incentives will be paid for Hope for Homeowner refinances.^[6]

Transparency and accountability

- Measures to prevent and detect fraud, such as documentation and audit requirements, will be central to the program.
- Servicers will be required to collect, maintain and transmit records for verification and compliance review, including borrower eligibility, underwriting, incentive payments, property verification, and other documentation.
- Freddie Mac is appointed the compliance officer of the program.^[6]

Warnings

Foreclosure rescue and mortgage modification scams are a growing problem. Homeowners must protect themselves so they do not lose money or their home. Scammers make promises that they cannot keep, such as guarantees to “save” your home or lower your mortgage, oftentimes for a fee. Scammers may pretend that they have direct contact with your mortgage servicer when they do not.^[6]

Scams

After the beginning of the [mortgage crisis](#), unscrupulous mortgage professionals began setting up "Foreclosure rescue" companies promising for a large fee to persuade lenders to modify desperate homeowners' mortgages. Nonprofit housing counselors approved by the [Department of Housing and Urban Development](#) will help borrowers for free;^[1] additionally, many states are enacting legislation which forces loan modification companies to become licensed and bonded to legally remain in business, eliminating many fraudulent operations that charge fees.^[7]

Resources

There are free resources available for potential applicants.

- The Federal government provides free resources to get you the help you need. Homeowners can call the Homeowner's HOPE™ Hotline at 1-888-995-HOPE (4673) for information about the Making Home Affordable Program and to speak with a HUD approved housing counselor. Assistance is available in English and Spanish, and other languages by appointment.
- HUD.org is another free website where you may go to find a local counselor in your region. [HUD.gov](#)
- MakingHomeAffordable.gov also has many resources for you to check online. It allows you to compute estimated payments as well as has other resources. [Making Home Affordable](#)
- Fannie Mae has a tool available where you can check to see if your loan is owned by Fannie Mae and thus potentially eligible for the program [Fannie Mae Loan Look Up](#)
- Freddie Mac has a tool available where you can check to see if your loan is owned by Freddie Mac and thus potentially eligible for the program [Freddie Mac Loan Look Up](#)

References

1. [^] ["Glossary"](#). Washington State Department of Financial Institutions. http://www.dfi.wa.gov/consumers/glossary/glossary_m.htm.
2. [^] Christie, Les (2009-01-22). ["Tough Workouts"](#). Money. http://money.cnn.com/galleries/2009/real_estate/0901/gallery.tough_workouts/index.html. Retrieved May 13, 2010.
3. [^] <http://www.financialstability.gov>
4. [^] <http://www.makinghomeaffordable.gov>
5. ^{^ a b} <http://www.hmpadmin.com>

6. ^ ^a ^b ^c <http://www.ustreas.gov>
7. ^a Kiel, Paul (2009-09-24). "[Why loan modification scams are booming: Bogus mortgage "rescues" are a growing business -- and state and federal authorities can't do much about i](#)". Salon. http://www.salon.com/news/feature/2009/09/24/loan_modifications/.

External links

- MakingHomesAffordable.gov

Craig A. Lancey

R W REAL ESTATE, LLC

19 Central Street

Farmington, NH 03835

603-755-9111

603-755-9115 fax

rwrealty@worldpath.net

www.rwrealestatehomes.com

ⁱ See our web page link: Important Buyer Info:
Click on: Thinking of Purchasing a Short Sale?