

Homebuyer Education Section 2

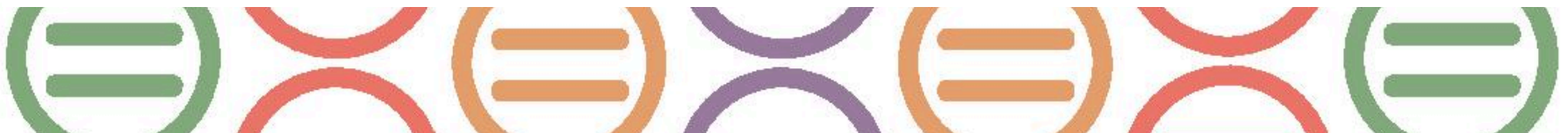
Default Options

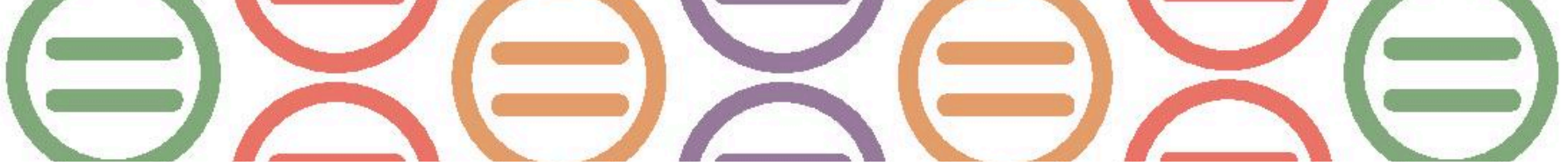
Loss Mitigation and Alternatives to
Foreclosure



When you Think you Can't Make you Mortgage Payment

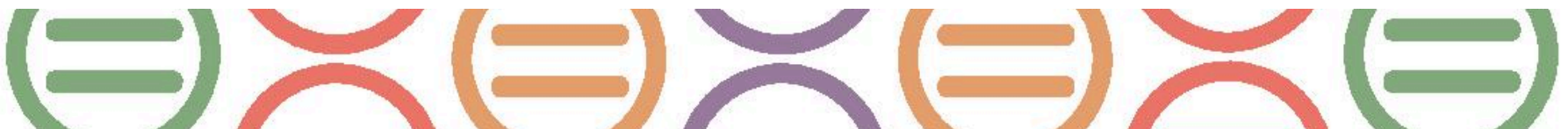
- First review your payment priorities
- Lenders and loan servicers recognize different kinds of payment delinquency
- Lenders will work with distressed delinquents in different ways depending on if it can be reasonably expected that they can return to making timely payments
- Let your lender or loan service know if you have a crisis immediately
- **DO NOT AVOID CONTACT**
 - Answer all letters and phone calls about your late payments
 - Show you are willing to do the right thing
 - Keep careful records of all calls and copies of all letters
 - Explain to whom you spoke and what was said






Understanding what Services are able or not able to do

- When you cannot make your payment you have a reason or story related to your inability to pay
 - When you contact the loan servicer they may not seem interested in your story
 - Issue is that they cannot make decisions based on stories
 - The criteria for allowing you to keep your home when you cannot make payments are:
 - You have had a decrease in income or an increase in expenses
 - Expectations of you returning to making regular payments
 - All loss mitigation and foreclosure alternatives are considered based on those criteria





Getting help

- Contracting a professional credit or housing is recommended
 - They are more familiar with the language of servicers
 - They should know the alternatives that are available
 - Non-Profit counseling services are highly recommended
 - Services at little to no cost
 - Supposed to have your best interest at mind
 - Not all non-profits are the same
 - For-Profit counseling services first priority is to make money
 - Fees are much higher
 - Recommend actions that require fees or refinancing when there are other options available
 - Possible sources of credit counseling or assistance with your loan servicer
 - The non-profit agency that helped you buy your home
 - Your local FHA or VA office if you have an FHA or VA loan
 - HUD/FHA Counseling referral number 800-697-6967
 - Fannie Mae Counseling referral number 800-732-6643
 - The National Foundation for Credit Counseling at www.NFCC.org or 800-388-2227
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- **To Get Help There Are Things You Must Do**

- Be honest
- Be cooperative
- Accept responsibility for your situation
- Be willing to make sacrifices and change habits to keep your home
- Keep your property well maintained so it does not lose value





Loss Mitigations- These Options Allow you to keep your House

- **Repayment Plan**

Gives a fixed amount of time to repay amount you are behind. You pay a portion of what is past due with your regular monthly payment also called a work-out agreement

- **Forbearance Agreement**

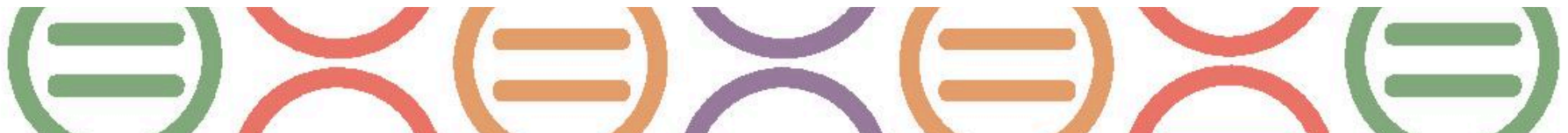
Suspends or reduces monthly payments for a period of time. Lender will have you agree to make up the missed payments. Lender may use repayment plan or may add payments on to the end of the loan.


- **Loan Modification**

Actually rewriting the terms of the loan to make payments easier. Lender might extend length of the mortgage or change interest rate. Done when borrower has sufficient equity to cover what's in arrears. Only done when lender has reason to believe borrower will keep up payments.

- **Partial Claim**

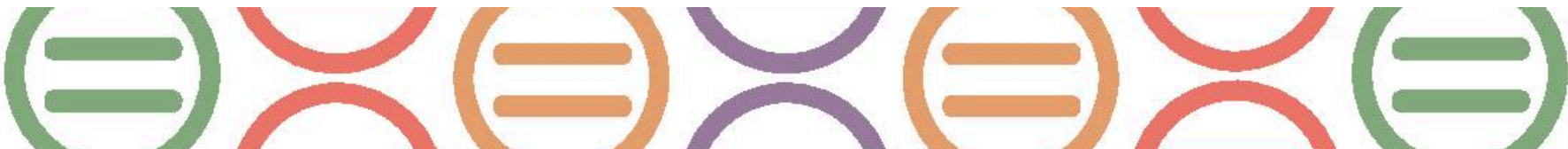
Mortgage Insurer avoids a claim by loaning you money to pay insurance company then holds a promissory note for the amount of the advance. Have to prove your financial problems are over or will end soon.





Alternatives to Foreclosure (Disposition)- These options mean you lose your home

- **Pre-foreclosure sale** - Lenders can avoid expense of foreclosure by letting you sell property
 - If it sells more than you owe, you keep the difference
 - If it sells for less than what you owe, they forgive the difference
- **Assumption** - transferring the property and the mortgage to someone else
 - Very rarely happens
 - However, lender may agree to do it to avoid foreclosure costs
- **Deed in lieu** - you voluntarily sign over the deed to the property to the lender
 - This stops foreclosure process
 - Same tax problem as in pre-foreclosure. You may pay income tax on the forgiven amount of the loan





Deficiency Judgements

- Regardless of alternative used, you can be sued for money the lender lost
 - Court can order you to pay difference between what lender got back and the amount of the loan
 - Lenders don't always bother, because lawsuits are expensive
- Reason you should know about deficiency judgment
 - If you negotiate pre-foreclosure sale or deed in lieu of foreclosure
 - Before agreeing to these options ask the lender
 - ✓ Is the mortgage note going to be cancelled?
 - ✓ Will then lender waive a deficiency judgment?
 - ✓ Will lender report the PFS or DI promptly to the credit union?
 - ✓ How much time will you be given to find a new place and move?





Happy Endings

After the Crisis

- There are generally 2 reasons you get into trouble
 - You fail to stick to the plan
 - You have a crisis that your savings couldn't cover
- Failing to stick to the plan is under your control
 - You now know how important the plan is
 - If you want to buy again, start a new plan and stick to it
- Crises are harder to control
 - Develop a financial plan that sets more aside to cover the unexpected
 - Begin rehabilitating your credit so you can try again

