



OLDE KEY TITLE

RESIDENTIAL AND COMMERCIAL CLOSING SERVICES SINCE 1982

LOAN MODIFICATION BASICS OCTOBER 2010

I. RESOURCES:

- A. Helping Homeowners Save their Home Act of 2009
- B. FHA Hope for Homeowner's Program
- C. www.mdhope.org: free assistance from nonprofit counselors
- D. www.civiljusticenetwork.org: Diane Cipollone, Esquire
- E. www.efanniemae.com: see ALLREGS on homepage
- F. TARP: Troubled Asset Relief Program: makinghomeaffordable.gov
 - 1. HAMP: Home Affordable Modification Program
 - a. Summary of HAMP Regulation Changes per U.S. Treasury Dept Supplemental Directive 10-02 (effective 6/1/2010)
 - 2. HARP: Home Affordable Refinance Program
 - 3. 2MP: Second Lien Modification Program
 - 4. UP: Home Affordable Unemployment Program
 - 5. HAFA: Home Affordable Foreclosures Program

II. LOAN MODIFICATIONS: Mortgage loans are supposed to be modified more than ever before in an effort to help consumers avoid foreclosure. The goal is to assist consumers, who through no fault of their own, due to deflation of their home value, to remain in their homes, which would help to stabilize the overall home market which effects everyone. Further, the goal is to ease tight credit and improve the flow of credit and increase the borrowing authority of the FDIC and NCUA (National Credit Union Association). The benefits offered to consumers and lenders are tempered by consumer protection and fraud prevention provisions enforced by the National Mortgage Fraud Task Force in the Department of Justice.

Modification of a homeowner's original loan terms includes reducing the rate as low as 2%, fixing an adjustable rate, increasing the term up to 40 years and even reducing the principal balance.

Typically, modifications made the terms more favorable but added on any unpaid principal, interest and penalties to a consumers mortgage balance, essentially causing the property to be even more "underwater". More recently, lenders are implementing a home retention program which includes an "earned principal forgiveness" of up to 30% of the loan balance to reward a consumer for living up to the modification terms.

Unfortunately, the lenders lack the processes or staff to efficiently handle the loan modification applications. The idea of modification is talked about more than it is being implemented.

III. ELIGIBILITY: Federal assistance limited to household with incomes up to \$1 million annually.

A. HAMP: available to consumers whose loans are owned or guaranteed by Fannie Mae or Freddie Mac, these lenders are REQUIRED to consider modification. Other investors may choose to participate, go to www.makinghomeaffordable.gov to determine if your loan is a Fannie Mae, Freddie Mac or held by a participating investor. Eligibility requirements for Borrowers:

1. Borrower must be current (no longer a requirement as of 6/1/2010)
 2. owner occupant of 1-4 unit home
 3. max \$729,750 unpaid principal balance
 4. loan originated on or before 1/1/2009
 5. mortgage payment (PITI + HOA) exceeds 31% of monthly gross income
 6. Financial hardship makes payment unaffordable
- HAMP APPLICANTS MAY NOT BE FORECLOSED UPON UNTIL HAMP EVALUATION IS COMPLETE. SINCE 6/1/2010, LENDERS MUST ALLOW THE BORROWER TO COMPLETE THE HAMP PROCESS AND THEY CANNOT FORECLOSE UNTIL THE BORROWER HAS RECEIVED A WRITTEN DENIAL OF HAMP APPROVAL WITH THE REASONS FOR THE DENIAL STARTED THEREIN.
 - NPV: NET PRESENT VALUE TEST is a cost benefit calculation performed by the servicer in order to determine if a HAMP modification will be offered to the borrower. The amount the borrower will likely pay over the course of the HAMP modified loan is weighed against the profit of an immediate foreclosure sale. This calculation includes many variables selected by the servicer, SOME OF WHICH ARE NOT PUBLIC, such as re-default rate. If a modification is denied for this reason, a borrower has 30 days to object to the denial. A borrower may also request reconsideration if they have a “change in circumstance”. NPV is used to determine whether the value of the loan to the investor will be greater, if so, they MUST modify, if not, they may still modify but are not required to do so.

IV. PROCESS:

- A. LOAN LOOKUP: Look up loan to see who servicer is:
1. www.fanniemae.com/loanlookup or 1-800-7FANNIE
 2. www.freddiemac.com/mymortgage or 1-800-FREDDIE
 3. makinghomeaffordable.gov loan look up to see if your investor is participating in HAMP
- B. UTILIZE EVALUATOR and ESTIMATOR TOOLS on makinghomeaffordable.gov to determine if your eligibility factors will qualify you for modification
(Ex: \$6000 monthly income x 31% = \$1860 mortgage per guidelines)
(Ex: \$3500 mortgage with \$6000 monthly income debt to income ratio is 58%, so if you qualify, potential new monthly payment is \$1860, potential reduction could reduce it to \$1640.)
- C. REQUEST HOME AFFORDABLE MODIFICATION :
1. Request form with affidavit (RMA form, no fee required)
 2. 4506T-EZ tax form

Olde Key Title
(301) 294-3333

3. Verification of Income:

- a. Salaried borrowers: last two paystubs
- b. Self employed borrowers: year to date profit loss statement
- c. Two most recent bank statements
- d. If relying on alimony/child support need official documentation
- e. Copies of most recently filed tax returns with all schedules, including Schedule E supplemental income and loss

SEND THE ABOVE TO MORTGAGE SERVICER AT ADDRESS FOUND UNDER
“CONTACT YOUR MORTGAGE SERVICER”

- D. HOMEOWNER EVENTS: Federal, state and local governments are sponsoring homeowner events where borrowers can learn about foreclosure prevention options and get IMMEDIATE help connecting with loan servicer representatives and housing counselors. Go to makinghomeaffordable.gov homeowner events and search by state for events near you.

V. CONDITIONS OF APPROVAL:

- A. Complete 3 month trial period successfully
- B. Credit report will reflect you as current if current or delinquent if delinquent, but also identify loan as “modified under federal government plan”
- C. Rate remains fixed unless your initial modified rate is less than current market rates
- D. After 5 years, rate will increase by 1% per year until reaches cap equal to market rate as of the date of your modification, then fixed for life of loan
- E. HAMP expires 12/31/2012

VI. REWARDS of SUCCESSFUL MODIFICATION BY
BORROWERS:

- A. government financial incentives to borrowers through HAMP:
 - 1. Timely payments entitle borrower to success incentives, for each month borrower pays on time, accrue an incentive credit reducing the loan balance, applied to the loan balance annually @ \$1000 per year up to 5 years or \$5000.

VII. PRINCIPAL REDUCTION HOME RETENTION PROGRAMS:

- A. Bank of America has introduced as of May 2010
- B. Corelogic data and many government studies indicate that the rate of successful modifications increases substantially if an earned principal reduction is part of the modification as it increases a homeowner’s incentive to pay to protect their equity.

VIII. BENEFIT TO CONSUMERS WHO MODIFY VS. CONSUMERS WHO
DO NOT NEED TO MODIFY

- A. Approximately 23 % of all properties with a mortgage (11 million are “underwater” or “upside down”).
- B. Modifications that are sustainable going forward will help stabilize property values which will benefit the economy as a whole. Damage from a foreclosure is not limited just to the home that is lost. Foreclosures reduce whole neighborhood values, vacant homes increase, crime, vandalism, families forced to relocate, etc.
- C. HAMP modifications are steered towards owner occupied properties, not investor properties, who are target borrowers who pay their bills and are not delinquent. HAMP

gives incentives for success by compliance with modification terms and keeps families in their homes.

IX. CONCLUSION:

- A. HAMP has facilitated modification of 1.5 million loans and another 1.3 million loans are currently in the 3 month trial period. Homeowners are saving a median average of \$500 per month or 1/3 of their previous monthly mortgage payment.
- B. Measuring Servicer Performance, Compliance, and Execution: As of July 2010, reporting will include the 8 largest servicers, through the Chief of Treasury's Homeownership Preservation Office. Focus on servicer accountability, transparency and improving the homeowner's experience.
- C. Assessment measured by:
 - 1. Average time from start to finish of modification
 - 2. Servicer implementation of timelines for program updates
 - 3. Provide alternatives for those ineligible for HAMP
 - 4. Provide alternatives for those who do not succeed with HAMP trial modifications (Non-HAMP modifications, payment plans and short sales)
 - 5. Homeowner experience: speed of answered calls, hang up rates
 - 6. Homeowner complaints to HOPETM Hotline 1-888-995-4673
- D. Summary of HAMP Regulation Changes, effective 6/1/2010, provides distinct timeframes and forms to be used for each step of the process in hopes of making the system more fair, efficient and transparent.
 - 1. no longer have to be current on loan to be eligible to apply
 - 2. lender cannot hold a foreclosure sale until HAMP process completed and borrower receives a written denial. Borrower has 30 days after denial to request a reconsideration.
 - 3. A borrower can be in bankruptcy and still seek a modification, in the past such a borrower would not be eligible for HAMP.