

# Step-by-step process to apply for a loan modification with your lender/servicer



## **Step 1: Determine your eligibility status before contacting your lender**

You must have a steady income and a positive budget to qualify for a loan modification (LM). Unemployment benefits alone will not qualify you for a LM program. A positive budget is one with extra cash left after paying for all your monthly expenses. If you have a negative balance on your budget, you will not qualify for the loan modification. Be sure to reduce your expenses to a minimum and work on a survival budget before calling your lender. Your mortgage payment is the most important item on your budget and thus it should be prioritized over a car payment or a credit card.

If you have resolved your income crisis or foresee resolving your crisis within the next 6 months, then you may be a candidate for a loan modification. However, if you do not see your income increasing within the next 6 months, you should determine if saving your home is your primary goal. If so, then ask your lender about other options that may allow you to keep your home while you seek employment. These other options are listed in Step 4. If you determine that you truly cannot afford your home in the long term, begin saving the funds you would have used to make your mortgage payment to secure a new place to live for you and your family.

The pre-qualification criteria for a loan modification is the following: a) The home must be your primary residence; b) You must have suffered a financial hardship that makes your current mortgage payment at the current interest rate unaffordable; c) You must have steady income (other than unemployment benefits) and d) You must have a positive budget.

## **Step 2: Have an action plan to overcome your crisis**

Work on a hardship letter that would explain to your lender why you fell behind on your mortgage payment and how you are managing your crisis. Lenders like to hear you are managing your crisis by reducing expenses and finding new sources of income. If you cannot afford to make a full mortgage payment, you should save as much as possible. Ideally you should try to save at least 1/3 to 1/2 of the amount owed. Lenders may ask for a down payment on the debt owed in order to approve a LM. If you have a negative budget, the lender will deny your loan modification based on your inability to manage your finances. Therefore, be sure to eliminate your cable TV and any other unnecessary expense to show good financial management on your part. If you are not doing your part on managing your finances while in a crisis then you can't expect the lender to work with you on getting a LM. On the other hand, if the lender sees you are proactive and doing everything you can to regain stability (sold your second car, applied for utility assistance, etc.) and all you need is a LM to bring you back to stability, more than likely they will approve your loan modification.

### **Step 3: Determine if your loan is owned by Fannie Mae or Freddie Mac**

If your loan is owned by Fannie Mae or Freddie Mac you may qualify for the Making Home Affordable Program. This program was unveiled by the Obama Administration in March of 2009 to help responsible homeowners undergoing a financial crisis retain their homes. Participating lenders are accepting applications for the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP). However, since this program is a voluntary program for lenders, banks are not under any obligation to approve a HAMP or a HARP. To find out if your loan is owned by Fannie Mae or Freddie Mac, go online at [www.fanniemae.com](http://www.fanniemae.com) or [www.freddie.com](http://www.freddie.com). For more information on The Making Home Affordable Program, go online at [www.makinghomeaffordable.gov](http://www.makinghomeaffordable.gov). If your loan is not owned by either Fannie or Freddie, don't be discouraged since you may still qualify for other loan modification (LM) programs.

### **Step 4: Call your lender**

Refer to your mortgage statement for the number to reach your lender. Also, go to your lender's website to see if there are specific numbers to call and apply for a loan modification (LM). If you don't know where to start, call your lender and ask to speak to the **loss mitigation department**. You may have to wait on hold for a few minutes before you get transferred to the correct department, therefore be prepared for long waits and have all your questions written down before you call. Lenders may want to review your financial information to determine whether you pre-qualify for a LM. If you are not absolutely certain of your budget, tell the lender you will call back to complete this step. You do not want to guess on your income or expenses as this may impact your ability to qualify for a LM.

Be ready to explain your situation clearly and briefly. Go straight to the point and avoid long explanations about your situation. Though you have been experiencing a stressful time in your life due to loss of work or a family break-up, for example, the lender can really only help you with your mortgage issue. Don't call if you feel very emotional or unstable. Call when you can be calm, patient, polite, yet assertive. Being assertive in your conversation will help you get answers quickly and you will avoid ending up in the wrong department.

On your first call you should be able to receive the information you need in order to get started on the LM application. For the LM, lenders are going to require that you submit the following (you can download tax forms at [www.irs.gov/formspubs/index.html](http://www.irs.gov/formspubs/index.html)):

- Income verification (2 current paystubs)
- A hardship letter
- A positive household budget
- Two current bank statements
- Most recent tax return (for up to two years possibly)
- IRS form 4506T: For currently employed and/or self-employed homeowners
- IRS form 4506EZ: For unemployed/all other homeowners with no tax returns

If you do not have a job you will not qualify for the modification. Unemployment benefits do not count as income. Ask about other options besides a LM (ex. forbearance plan, repayment plan,

short sale etc.). If you are seeking to turn the home over to the lender before formal foreclosure (deed in lieu) or sell the home for less than the loan amount owed (short sale), ask the lender if these options are available to you and under what circumstances (e.g. some lenders may require a home to be on the market for a set period of time before they will allow it to be sold for less than what is owed). Also, any options that entail returning the home to the lender or selling for less than the loan balance will impact credit ratings and have possible tax implications. Be sure to get expert financial advice from a tax accountant or real estate attorney before entering into these options.

### **Step 5: Send your documentation**

If the lender agrees to your submission of a loan modification packet, take careful notes of what information they need from you. Take notes of the deadline set by the lender to receive this information and the next steps to take after your documents are submitted. Keep a diary of every conversation, names of the reps, dates, etc. Send all documents via fax or certified mail so that you have confirmation of receipt of your documents by the lender. **DO NOT** miss deadlines set by your lender. Call the lender to make sure they received all your documentation. They receive hundreds of requests each day and thus it is important that you are responsive to all of their requests. They may ask you to resend the same documents more than once, therefore it is very important that you remain calm and don't argue the fact that you already submitted this documentation. Failure to do so may result in the early termination of your loan modification request.

Before ending your call with the lender, get a timeline from them as to when you should expect a response to your application. Ask if there is a reference number for your file and write it down.

### **Step 6: Be proactive: Call your lender to check on your LM status!**

If the lender tells you in two weeks you will get a response, contact your lender in two weeks to follow up on your application. Do not wait for the lender to contact you. Be proactive and call to check in on your LM status. Some lenders expect you to call them frequently and therefore they may not contact you to inform you they need more documentation from you. If you do not call and they happen to need more information from you, they may close your file and you may have to re-start the process from the beginning.

### **Step 7: Be patient**

Modification requests are taking upwards of 90-180 days to complete. The modification process will not stop the foreclosure process but you can ask for a deferment on the sale date of your property until you hear back from your lender. Lenders will generally only postpone a sale if it is scheduled within the next few weeks and approval of a LM is likely. Since the lender is not obligated to approve your loan modification before the sale date, it will be your responsibility to remind the lender to postpone the sale date until the Loss Mitigation Department (LMD) has finished reviewing your papers. You may need to speak to another department within your lenders'

organization. Be sure you are working with the department that notifies the trustee office on sales. You need to be sure that the LMD and the department that issues sale notices communicate with each other.

## **Step 8: Save money**

Save as much money as possible while you are waiting for the lender to process your application. Put your household on a strict budget if saving your home is your primary goal. Lenders may ask for some money up front before they can approve a modification so remember to be saving at least 1/3 to 1/2 of your arrears to make a down payment to your lender (refer to Step 2).

## **Tips when talking to your lender**

- When your call is answered, allow the service rep to take the lead and answer their initial questions.
- Keep your conversation focused on your mortgage and your request for a loan modification or other loss mitigation options; avoid complicated conversations about personal issues. Remember: just give the facts of your financial situation and how you plan to address it.
- Tell your lender that you are having a hard time making your payments and you would like to apply for any loss mitigation programs they have available.
- Tell them you have the necessary paperwork ready; be prepared to explain the situation that led up to your financial hardship, what you are doing now to deal with the hardship, and your plans for adjusting your budget and increasing income in order to meet your home payments.
- Understand that your servicer may not be your investor and so your investor will decide what plan will be the best plan for the homeowner.
- Be aware of foreclosure rescue scams. Help is free and there should never be a fee for assistance with or information about the Making Home Affordable loan modification program.

## **Inside information**

- The information in this guide is provided as a general guideline. Individual lenders may have different requirements to qualify for a LM. For example, some lenders will want you to show a negative budget to show that you need the reduction in your payment.
- The difficulty arises in not knowing what the lender's qualifications are until you have completed your budget with them. Be aware that you may have one chance to "fix" your budget with the lender if you do not initially qualify. Review your budget information and call back with updated numbers to see if you meet their guidelines.

- Lenders and servicers will put you in a trial modification period before they make the modification official to determine that you can meet the new mortgage payments. This trial period is usually 3 months.
- Lenders are not required to use the Making Home Affordable (MHA) program nor are they required to follow the guidelines of the federal program. For example, private mortgage insurance is NOT a disqualifying factor in the MHA program. HOWEVER, many lenders, if not most, will NOT approve MHA for loans that have private mortgage insurance. Lenders cannot be forced to comply with the rules of MHA; it is completely voluntary.
- Regardless of what a lender or servicer rep may tell you, your credit will suffer during the time of the modification application, during a trial modification, and once your modification is permanent (your credit will also suffer if you do a short sale). It isn't until your modification is finalized and new terms of your loan are drawn up that the lender can go back and remove your late payment reports from the credit bureaus. Expect your credit card interest rates to go up as well as other premiums such as insurance. Re-negotiate the interest rate with your credit card company if possible.
- While you are on a trial modification period, you may still receive late notices or notices to make up the arrearages. Be sure to get clear information from your lender about what will happen to the amount in arrears while you are in the trial period and what will happen to that amount in arrears once the loan is officially modified. Get this answer in writing from your lender before you sign the modification agreement. All modification agreements require signatures from you and the lender.
- If you have received a notice of default or notice of sale and your loan is being reviewed for a LM, make sure the lender's department that issues notices of default and sale is aware of your LM application. Ask your service rep to confirm your modification information has been sent to this department or have them transfer you to this department.
- If you are seeking a REFINANCE, you absolutely must work with your current lender, servicer or licensed mortgage broker. Housing Counselors are not licensed to do refinancing. For MHA Refinance program, your loan must be owned by Fannie Mae or Freddie Mac. If you have an FHA loan, that loan can be refinanced as well under this program.
- The federal Making Home Affordable **Refinance** program expires June 10, 2010.

The federal Making Home Affordable **Modification** program expires December 31, 2012.

- Beware of predatory practices by agents, brokers, attorneys and self-identified housing counseling companies/individuals that charge a fee to negotiate on your behalf with your lender. In the state of Washington, any business charging fees for financial services MUST be registered with Washington State Department of Financial Institutions. Forward your concerns, inquiries to [www.dfi.wa.gov](http://www.dfi.wa.gov). Contact the Washington State Attorney General's office to file complaints [www.atg.wa.gov](http://www.atg.wa.gov) and also to the Federal Trade Commission [www.ftc.gov](http://www.ftc.gov) (follow website directions for Washington State).