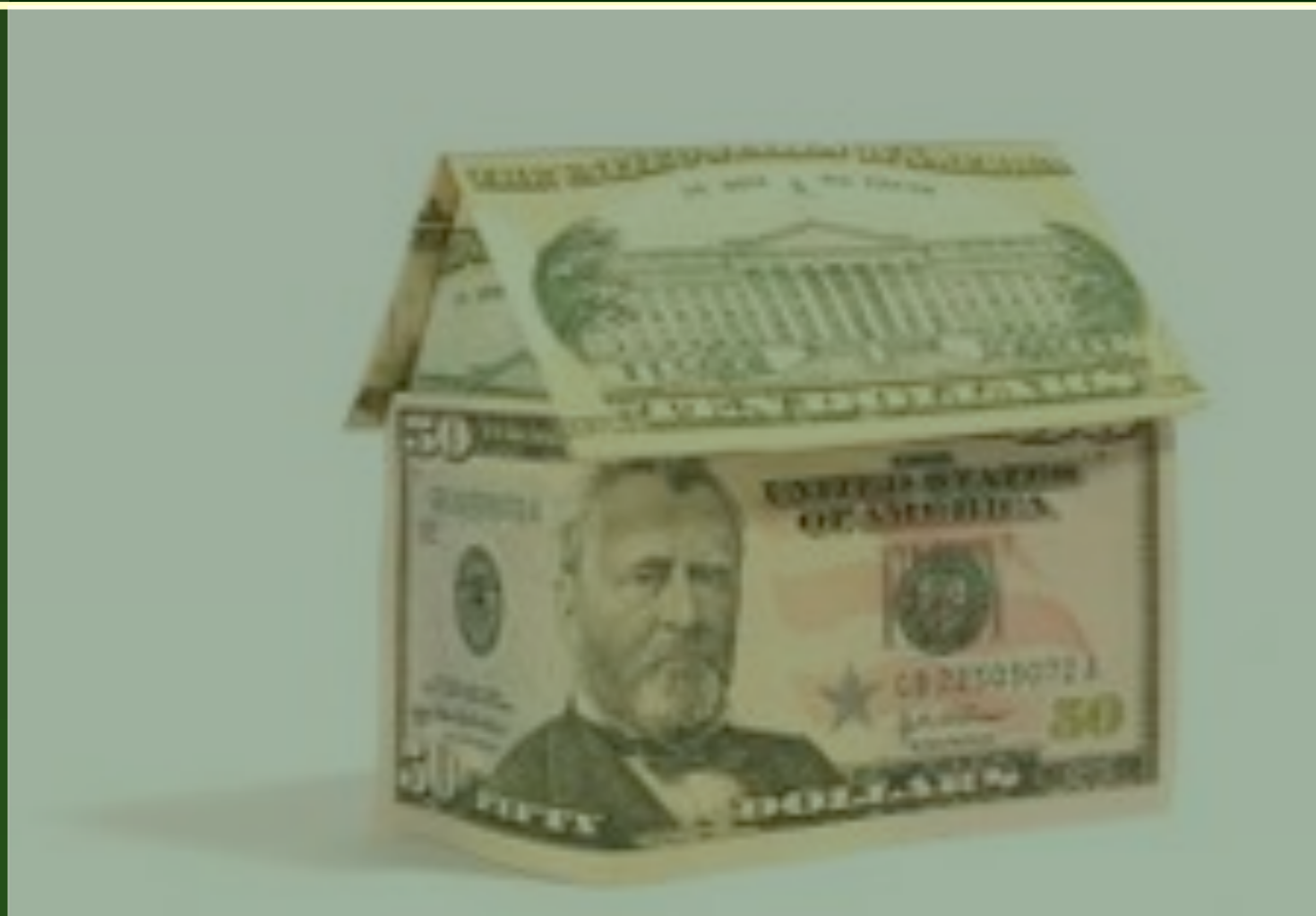


A Guide to Avoiding Foreclosure

Presented by

SPILLANE LAW OFFICES



Loan Modification

*Attorney
David Spillane*

SPILLANE LAW OFFICES
◆ ◆ ◆ ◆ ◆

Loan Modification

What is it? How does it work?

A loan modification

- Lowers monthly payments by creating an affordable payment plan with the Lender
- Lets the Borrower catch up and move forward while remaining in the home
- Allows the modifier (us) to take over communication with the Lender and collection agency

How is this different from a refinance?

Loan Modification

Who is eligible?

A good candidate...

- Has received a Notice of Default or Notice of Mortgage Sale
- Is one or more months behind on their mortgage payment because of an “acceptable hardship”
- Has a Debt-to-Income Ratio of less than 50:50 (calculated without over-time)
- Has enough steady income to keep up with reduced payments
- Has not requested, but has been offered, a rate freeze and has an acceptable hardship
- Owns a second non-rental property

An even better candidate...

- Has a delinquent loan (except previously modified within last year)
- Has an ARM which has or will be adjusted within six months (and high-interest rate ARMs with certain lenders)
- Has a fixed high-interest rate loan with sub-prime lender
- Has created a well-presented hardship letter
- Has a steady income and minimal additional debt beyond the mortgage payment

Loan Modification

A not-so-great candidate...

- Has a Debt-to-Income Ratio of greater than 50:50
- Has already filed for bankruptcy
- Is consistently late on mortgage payments
- Has owned their home for a year or less
- Has purchased a home outside of their means
- Has refinanced to purchase additional items (i.e. a car)
- Has a low fixed adjustable, interest-only loan (fixed rate will probably be higher)
- Has non-owner occupied property
- Has trouble making payments on time

Modifications that will not work...

- A rate freeze or previous modification within past year
- Low fixed rate, no hardship, and payments are on time
- Lost property value
- ARMs that will not adjust within next six months
- Option ARMs that are not late or have not adjusted
- Loans with private hard-money lender with equity in property
- Claimed hardships with insufficient evidence and high assets
- High property equity
- Insufficient income
- Excessive unsecured debt
- Borrower did not file taxes

Loan Modification

The Keys to an Effective Hardship Letter

Truthfully explain why you cannot make your current payment

Position yourself as reasonable and responsible with the bank as your highest priority

Clearly request help from creditors to correct the situation

What is an “acceptable” hardship?

SPILLANE LAW OFFICES



Loan Modification

Acceptable Hardships

- Adjustable-rate or unaffordable mortgages
- Illness / death of Borrower / family member
- Decrease but not loss of income
- Job loss of one Borrower
- Important property repairs
- Inability to sell / rent property
- Mortgage servicing issues
- Divorce / marital separation
- Property damage from natural disaster

Unacceptable Hardships

- Lost property value
 - Children's education
 - Other debt (credit card, car loan, etc.)
 - Minimal income from rental property
- * It is important to show consideration toward the bank in the hardship letter.*

Loan Modification

The Process

Pre-qualification interview

Information packet sent to Borrower

Signed packet / documentation returned with 3rd Party
Authorization Form

Documentation sent to Lender (Portion of fee due)

Proposal of restructured loan

30-90 days



Acceptance letter from Lender received

Possible negotiation with Lender

Client and Lender accept modification

Remaining portion of fee due

SPILLANE LAW OFFICES



Loan Modification

What's included in the package?

- Cover letter to lender, stating purpose of package and contents
- Client Authorization Form (signed by borrowers, one for each lender)
- IRS Form 4506 - T, Request for Transcript of Tax Return (one for each borrower)
- Two months paystubs (all borrowers)
- Two years tax returns (all borrowers)
- Year-to-date Profit & Loss statements (self-employed and entrepreneur borrowers only)
- Hardship letter with documentation to back up claim
- Schedule of real estate owned, especially if more than one property
- 1003 Loan Application
- Recent appraisal or county property value assessment
- Recent real estate tax bill, especially if taxes are not part of mortgage payment
- Proof of Homeowner's Insurance
- Copy of personal budget (all borrowers), lender will usually supply form
- Recent copy of Credit Report
- Two most recent mortgage statements and bank statements
- Letters from credit counselors to show

Can I negotiate my own loan modification?

Yes. However, there are significant advantages to an attorney-based modification.

- Experience and efficiency
- Team approach
- Objective view
- Knowledge and use of consumer protection laws
- Creditor response when dealing with an attorney

Thanks for reading!

Please contact us with any questions you may have about loan modification or other areas.

*Look for our next installment of the
“Avoiding Foreclosure” series
on our website and Facebook page!*

SPILLANE LAW OFFICES
◆ ◆ ◆ ◆ ◆