

# Loan Modification Insider Secrets

## How To Get Your Payment Reduced, Keep Your Home and Enjoy Life !

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### Read This If You Want To:

- **Stop** Worrying whether or not you will be able to keep your home.
- **Stop** Getting beat up, threatened, and abused by your lender.

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## **Warning: Here are a Few Common Scams Homeowners In Distress Often Run Into.**

- **Companies that charge money upfront to negotiate a loan modification for you.** Just call the state Attorney General and ask them if this is a problem. We've heard so many stories from homeowners who sent \$1,000 to \$5,000, or even more of their hard earned money to these outfits in the hope that they can negotiate a loan modification for them. Their success rate has been so bad that many states have outlawed this practice.
- **How To Stay Out of Jail.** Here are a few tips you should follow to avoid going to jail. First, never ever submit false or tampered paperwork to your lender. This can get you in big trouble. If your lender decides to come after you, they can drag that paperwork right into criminal court. They might say "Oh, you lied on this, oh, you lied on that." Be prepared to defend anything you send to your lender. If they do drag you into criminal court, you can come in and say "Your Honor, here's what happened. This is real stuff, I did not lie here."

**If you got a stated income loan,** then never send them your tax returns. You may have written what you thought you were making onto your loan application. Things looked good. The economy was strong. The housing market was shooting up. Then, at the end of the year your tax returns actually showed a lower income. Your lender can use that against you. So if you got a stated income loan, do not send them your tax returns.

**You don't want them dragging you into criminal court.** They will say "Oh, you got your loan in 2007, and said you were making a \$100,000 a year. Your 2007 tax return says you only made \$65,000. You lied to us, so you're going to jail." So you've got to be prepared to never submit anything that shows lies or shows a different income to what you stated whenever you were preparing your stuff.

- **Make sure your bank can't take any money in your bank account.** Many lenders will add a clause to your contract. This clause states that if you have a bank account with them, and you are behind on payments, then they have the right to automatically grab that money. It would take hours of time to read thru your entire mortgage and contract to see if this clause is there.

I recommend that if you happen to have your bank account with your lender to simply move it somewhere else. It doesn't matter if your loan is with the biggest bank in the country. They aren't as stupid as we think. They may not always check to see if they have a bank account with them, but they often will. We can't run the risk of it happening.

- **Do not make a partial payment to your lender unless you have an agreement.** We have seen many homeowners send a partial payment to the lender. They might have been told that the lender would stop the foreclosure. The lender simply keeps that money and continues with the foreclosure. The homeowners lose that money and they lose their home. So always get a written agreement with your lender before you send them any money.

# Chapter 1: Is a Loan Modification Ethical?

First off, I think they are. Here is why. A lot of people say that if you don't pay your mortgage or you got behind, then you are automatically a loser. I don't agree with that.

Are you a loser to want a better deal or a more reasonable house payment? Is it your fault that house payments shot through the roof over the last three to five years? If you wanted to buy a house, if you wanted the American Dream of home ownership, then you were automatically required to pay gobs more money for a home than it's worth today? Is it your fault that house prices dropped?

And here's the question: Does it really make sense to pay money on a house that's underwater? If you owe substantially more than your house is worth, you need to consider would it be better to just move on and find a place to rent. Many people are able to find a comparable or nicer home to rent for less money. One couple was paying \$2,200 a month. They tried to get a loan mod. The lender jacked their payments up to \$3,200 a month. What kind of a loan mod is that?! They rented a comparable home that even had a pool for the kids. What did they pay? Only \$1,600 a month rent. No taxes, no insurance, and no more stress.

A lot of people will look at you and say, "Oh, you don't contribute to society, you don't pay your bills" But, if you are stressed out over your high mortgage payment, then you're not doing as much as you could to contribute the economy. Here is why.

Stress-free people do a better job at their jobs and they work harder. They're able to go to work and not worry about other things. They don't have to leave work to go home and handle problems that come up. Most people just don't understand the stress and anxiety that comes from not being able to pay your mortgage payment.

Also, if you're able to get a more reasonable payment on your mortgage and keep your home, then you're also keeping up in your neighborhood. These banks are doing a horrible job with foreclosures. They don't keep up on the

homes or mow the yards. Every single home that's foreclosed on just means more blight in the neighborhood. It drives house prices down further. So you're actually doing a good thing for the economy by doing a Loan Mod.

## Chapter 2: Do you qualify for a loan modification?

Here is the first thing you should do. Here are the steps for how to figure out if you qualify for Loan Modification:

- First off, can you afford a monthly payment?
- If you can afford a monthly payment, what is your wished-for a payment? Is it five hundred dollars? A thousand dollars? Fifteen hundred dollars? Come up with a number for your "here is what we can afford for a monthly payment."
- Now, take that number and add it with all your other bills. Your car payment, your insurance payment, monthly home-owner's association fee, property taxes (to get a monthly amount, take your annual payment and divide by 12. That is your monthly payment.), and all your other costs. Electric payment, car insurance, home insurance, phone bill, cell phone bill, and all the other bills.
- Take all those other bills that come up every single month and add it to the mortgage payment. Now you have your total monthly bills. Take that number and double it.
- Are you making that much money every month? Because if you are making that much money, the more likely you can afford your "wished for house payment."

If you are not, then you need to look at “okay, we’re going to have to negotiate harder for a lower payment.” And in fact, in the “Making Home Affordable” program, they say in one of their guidelines that your total bills cannot be more than fifty five percent of your income. If it is more than fifty five percent, we know it’s going to be hard for you to afford that payment and keep your home.

**Here’s another thing to look at.** Can you afford your first mortgage, but maybe you have a second mortgage? Here is something you might want to consider. I've seen other people do it and I'm bringing it to your attention so

you can see what worked for them. They have considered simply not paying their second mortgage. They stay current with the first, maybe even do a loan modification with the first. But if they have a second mortgage, they just completely stop paying it. Please Note: I don't know all of the legal guidelines, so you're going to want to talk to legal counsel before you do this. I don't advocate for or against this, but it's something I've seen other people do.

The reality is that most second mortgages don't have many options. Some people even suggest that they'll just turn over and lay dead. I've heard that they'll often take a lump sum payment and go away. Down the road, when you're able to save up a little bit of money, you can pay them off for three, four, or maybe five thousand dollars and just get rid of them. Now, you finally have got a house that you owe what the house is realistically worth versus being upside down.

Second mortgages will call you a lot. They'll shout, they'll scream, and they'll even howl. In fact, they're going to scream and howl even more, and they're going to threaten even more than the first to foreclose. They'll say, "If you don't pay me, I'm going to sue you."

However, the reality is usually the opposite. They are less likely to do anything because they don't have any options. Second mortgages charge a higher interested rate, because they know that there is more risk. It might be worth looking into. If you can pay them off and potentially settle them, that will be a good option for you. The key is to stay current with the first. Every dime you're paying to your second mortgage on a loan modification is less money you can pay to the first mortgage. This can cause you not to be able to keep your home.

## **Chapter 3: The Myth that banks don't want properties back.**

Repossessing property is part of the lending business. Lenders have been lending for years. They've been repossessing properties for years as well. They are prepared and if it does come down to it, they will foreclose on your house and sell it as a bank owned property. That's just one of the things they're willing to do. They have entire departments that are designed to handle the foreclosures. They're often called the "Liquidation Department", of the "Foreclosure Department." Once a bank forecloses on a house, these departments specialize in taking that property, putting it up for sale, and handling the transaction.

Now, there are a couple of other reasons why they often prefer to foreclose on a house versus doing a loan modification. Let's say someone has two, three, maybe four mortgages or even other liens on the property. If the first mortgage forecloses, all of those other liens are gone. They don't have to deal with them anymore. That's another reason why some people do a loan modification on their first only and don't worry as much about the second. They try to settle with the second. That way, they have more money to pay off the first mortgage every month. Money that would be going to the second can instead be applied to the first.

In addition, a lot of lenders are actually servicers for a third-party investor. In fact, almost eighty percent of all loans are not even owned by the lender that you're dealing with. So you might have a loan with ABC Bank. But in reality, most of the time that loan isn't even owned by ABC Bank. They're just servicing it for a third party. It could be somebody on Wall Street, it could be the government, it could be someone overseas. Who knows who owns it?

Here is another thing that's interesting. What happens is the owner of the loan actually pays the servicer (the ABC Bank in this situation) more money when you're in foreclosure. Yes, it's true. They make more money when your loan is in foreclosure than when it is current. They profit from you being in foreclosure. I know the system's screwed up. It's totally messed up. But that's the reality we have to deal with.

## Chapter 4: Here's what you need to do to prepare yourself for the negotiations.

When you negotiate your loan mod you need to remember this. These banks are professional negotiators. They know the tricks. They know the tools to use against borrowers to suck as much money out of them as they can. Don't kid yourself. They're going to use every single tool in their tool chest to squeeze as high of a monthly payment out of you as is humanly possible. So before you start negotiations with the bank, you've got to be prepared. You can't just walk into a gunfight with a knife. You've got to go prepared so you get yourself the best deal.

**Step #1: Make sure that your lender can't come and grab any money out of your bank account.** Many lenders will add a clause to your contract. This clause states that if you have a bank account with them, and you are behind on payments, then they have the right to automatically grab that money. It would take hours of time to read thru your entire mortgage and contract to see if this clause is there.

I recommend that if you happen to have your bank account with your lender to simply move it somewhere else. It doesn't matter if your loan is with the biggest bank in the country. They aren't as stupid as we think. They may not always check to see if they have a bank account with them, but they often will. We can't run the risk of it happening.

So, if you have your saving account or any accounts with the lender that has your mortgage, then I recommend closing those accounts and taking that money elsewhere. They can take that money without going to court. They simply sweep in and grab it.

**Step #2: Start saving towards your good-faith down payment.** On a loan modification, most of the time, they're going to want between thirty and fifty percent of any payments behind. If you're behind twelve

payments of a thousand dollars, they're going to want between \$3,600 and \$6,000 to accept the loan modification.

**Step #3: Run your budget.** See what you can realistically afford. Look at those numbers again. If we make X amount of dollars per month, we divide that by two. That money goes towards our bills. We have two hundred dollars towards the electric payment, we have a hundred dollars for our car insurance, our car payment is four hundred dollars, etc. We subtract those numbers from that fifty percent number. What we have remaining is what we can afford to pay the mortgage company.

Run your budget and see realistically what you think you're going to be looking for as a payment. Decide on a payment before you even start your negotiations.

**Step #3: Look at your options.** The lender's negotiator can sense weakness. They can sense when you'll take any payment amount they tell you. Guess what happens next? You're going to be stuck with a much higher monthly payment. Make sure that when you start negotiations, you know the alternatives. You can't negotiate unless you come from a position of power. You must be able to say, "I can afford to walk away from the negotiating table if you push me to hard. If the bank pushes me to a monthly payment that I can't afford, you know what? Forget about it. I'm not going to get pushed around. I'll walk away and get a better deal for myself elsewhere."

So look at all your options. Find what houses similar to yours are renting for. It might make sense to rent. Get rid of the unrealistic lender and overpriced mortgage. I've seen so many people stay in their house and accept a monthly payment much higher than what they could afford to rent that same house in that same neighborhood for each month.

The other thing is, they're already strapped. Just to pay their mortgage, they are not putting food on the table. Any and all extra money is gone. Why? Just because their mortgage payment was good at negotiating. Don't let someone who's good at negotiating push you around and take food off your table.

**Step #4: Research where your lender stands.** If you can afford to, then order an appraisal. Or, do your own appraisal. Go on to [www.realtor.com](http://www.realtor.com) and find out what houses in your neighborhood are selling for. Ask your realtor “Hey, what are houses in my area selling for? I've seen people who bought a house for \$180,000. Guess what's it selling for today? \$120,000. If it's selling for \$120,000, then you shouldn't be paying a mortgage payment based on a value of \$180,000. You should be paying a mortgage payment based on a value of \$120,000. Make sense?”

Here's how to find calculate you should be paying. Check Google “amortization calculator.” Type in what your home is currently worth. Enter the interest rate you were originally paying. Look at the example numbers below.

- A \$180,000 mortgage at 6% interest is a monthly payment of \$1,079.19.
- A \$120,000 mortgage at 6% interest is a monthly payment of \$719.46.

It looks to me like they are overpaying by \$360 a month. Ouch!

Go do the calculations for your house. If your lender forecloses on your house, then it's not necessarily going to sell for the market value. Most foreclosed houses often sell for 85% to 95% of the value today.

Remember, knowledge is power. When you have this information you have a much better negotiating position with your lender. You can say “Hey guys, foreclose on my house. You're going to lose your shirt.” It's unrealistic to over-pay for a house when you can go and rent somewhere else. This enables you to get your life back on track with less stress and worry.

**Step #5: Consider what you are going to do 5 years down the road when your loan modification expires.** Most loan modifications only last for 5 years. After the 5 years is up, your payment goes back to the original amount. You've already taken all the hit of getting behind on

your payments and you've taken the whack to your credit. Your credit rating's been affected, and a lot of issues have come up from you getting behind on your payment. Five years down the road, your payment may adjust back to what it was before. If you can't afford the higher payment five years down the road, what are you going to do at that point?

Are you going to re-default and try to get another loan modification? Or, would it make sense today to just find a place to rent? Then you can buy a house at today's lower prices, or maybe even wait a little bit? Some experts are predicting the housing market is going to have a double dip. They are predicting that after the First Time Buyer Tax Credit expires, then the housing market will decline even more.

You can rent until you're sure that housing prices have bottomed out. Fannie Mae's guidelines allow you to buy a house 2 years after a short sale. That is just an option to consider. Consider if you want to take a temporary fix right now or if you want a permanent fix.

**Step #5: Draw a line in the sand for your negotiations.** Every good negotiator recommends that before you start any negotiation, that you must decide on the max you will pay. Decide on the maximum payment you will accept. You've got to decide "I will not agree to a payment more than X and a good faith down payment of more than X."

If you don't do this, then the bank will be able to push you around. You won't be able to negotiate from a position of power. You won't be able to say, "I'm going to walk if you don't give me this deal." Unless you have a line in the sand, the bank will push you around. They'll shove you into higher payment. Then you'll be stuck with a payment that you think you can afford, but the reality is you can't.

**This is the biggest mistake I see homeowners make with their loan modifications.** Loan modifications have got a bad rep in the media. Many people say "Oh, look. Everyone who gets loan modifications is re-defaulting." That's not the entire story. The reason they're re-defaulting is this. The lenders are pushing so hard to get more money out of people. They're squeezing every single dime they can out of the customers. I bet

those negotiators at the bank get paid a bonus for how much money they squeeze out of you. So their job is to squeeze and squeeze hard. “You want a payment of \$1000 a month? No, we’ll do \$1500. Oh, you want a payment of \$1200? No, we’ll do it for \$1600”, they say. It's insane.

Unless you have a line in the sand, you’ll get stuck with a higher payment. You'll be more likely to re-default later on. If you already got one loan modification and it didn’t work, then how are you going to look the next time around? The people at your lender might say “This guy already got a loan modification with us before; he re-defaulted on it six months down the road, now he’s come back to us again? Should we even waste our time on this guy?”

That’s the problem. You’re going to look bad in the lenders’ eyes. So the next mod is probably going to be a lot tougher. Don't just agree to their payment offer. You might think you can afford it. You'll tell yourself, “Oh, maybe we won’t eat out anymore; maybe we won’t see any movies, etc.” But, do you want to live your life miserable, broke, and poor for the rest of your life? Push for a payment that you can afford. Then you can afford to keep your house and live stress free.

You can go to work at your job knowing that your family is taken care of. You'll have enough money for childcare, for movies, and for keeping your sanity. Your sanity is so important. If you don’t have your sanity, then you can’t do a good job at your work. You might get passed over for a raise. Or, maybe your boss will lay you off because you’re so stressed out. It's just not worth it.

So getting a good loan modification and getting the payment you want is so important. You'll have worked so hard to get to that point where they agree to lower your payment. Don't let all that work go down the drain by accepting a payment you can't afford. After all, you’ve got to look out for yourself. The banks are looking out for themselves; the lawyers are looking out for themselves. You’ve got to look out for yourself too.

# Chapter 5: Preparing your loan modification package to submit to your lender.

Here are some of the things you will need to submit.

**Part #1: A Hardship Letter.** There are lots of hardships letter forms you can find online. Many people recommend different ways to submit a hardship letter. The key is to put in specifics, here is an example: "The reason I got behind in my payments is my boss reduced all employees to forty hours a week. Before, I was able to work about 50 hours a week. Now, I'm only about to work 40 hours a week. As a result, my income has been reduced by 20% and I can't afford my house." Or, you might say something like, "My boss was previously paying me \$16 an hour, now I'm only getting paid \$12 an hour." Or, "I got in a car accident and I collected insurance for a little while. I was previously making \$1,000 a week. My insurance only paid out \$720 a week. As a result, we were making less money and we couldn't afford the house payment. Today, I am back on my feet. I'm back at my job making \$1,000 a week."

If a temporary blip was the reason you got behind in your payments, and you can make the normal payments again, and then put that in bold. Put it in huge font. Make it the emphasis of that in your hardship letter. Also put the specifics in bold. You want to make it look like the things that happened were a temporary blip. There are two simple things to demonstrate: Number one, you have money. Number two, you have enough income to be able to afford a reasonable house payment.

**Part #2: An appraisal or statement of value.** You've got to submit an appraisal or an opinion of value from a real estate agent. Send it into them. Say "Look guys, I bought the house for \$180,000. Today, this realtor says it's worth \$120,000. Based on that, if you don't take my loan modification, you're going to lose \$60,000 or more."

When they see today's value, they're going to be much more willing to look at your loan modification and reduce your payment. And they can see their options and what will happen if they don't work with you.

**Part #3: Documentation of income - Pay Stubs.** You've got to show them an income that's not too high and not too low. If you show them too low of an income, they're going to go "Oh, this guy can't afford his house payment. If we reduce his payment to \$800, he won't even be able to afford it anyway so what's the point in reducing it? Before, he thought he could pay \$1,200 a month. He can't even pay the \$800 a month that's he's asking for today. He's not making enough money, based on our ratios, to be able to afford it."

Here's what happens if your income is too high. Let's say your payment is only \$1,000 a month and you're making \$4,000, \$5,000, or \$6,000 a month. They will say "What's up with this? This guy's making a ton of money. Why are we going to reduce his payment?" So you've got to make sure your income and your budget is in that middle range. Look at your recent payment history.

Maybe you can pull the most recent month. If it shows the right numbers use it. Or, pull from a longer period. Use the last three months or the last six months worth of income. You want to be able to demonstrate that you're making enough money to afford that payment, but not making so much money that they will charge you more."

**Part #4: Tax Returns.** Many lenders are asking for the last three years of tax returns. Remember; don't send in your tax returns if you have a stated income loan.

**Part #5: Bank Statements.** They're going to want three to six months of your bank statements,

**Part #6: Your Budget or Financial Statement.** They are going to want this all broken down. Here is an excellent financial statement that many lenders use. Find it online at:

<http://www.freddiemac.com/sell/forms/pdf/1126.pdf>

## **Chapter 6: Submitting to the lender.**

After you have all of that stuff put together, then you're ready to submit it to your lender. Get your last mortgage statement and call the 800 number listed on it. Ask the person who answers the phone for the phone number for the loan modification department. Write it down. Get the fax number as well. Ask that person if there are any special forms that they use. You will need to send those forms with your application.

Now try to get to the loan modification department. Ask them the same questions. You will discover that not everyone knows the correct answer. So once you have that information, put together your package and fax it in. Then, follow up twice a week. First, confirm they received your paperwork. Then, follow up to see when a negotiator will be assigned. After that, go through the process with them. Be sure to check with that person at least once a week. You want to make sure they work on your file and aren't distracted by everything else.

Be sure and keep notes of everything. Who you talk to, when you talked to them, and what they said. Track the date and time you talked to them. Always keep your cool. Never get mad. Once they agree to a modification they should send you an agreement. Do not send your good faith down payment until you have a signed and notarized agreement with everything laid out.

# How to Stop Harassing Debt Collector Phone Calls

Don't let debt collectors harass you into paying them money that you really should be paying your lender. Paying credit cards and other unsecured debts are your lowest priority. An unsecured debt is a debt where they can't take away your car or house. A secured debt has something as collateral, such as your car, house, or anything else of value.

The most common unsecured debt is a credit card. When you stop paying them, they will call you nonstop. The reason is because they don't have any other way to collect from you.

**They can't come get your car or take your house.** So, they make up for that by blowing up your phone with harassing calls. In addition, they use deceptive tricks to get you to pay them. For example, there are Federal Laws that regulate what they can do or say. They aren't allowed to threaten to sue you, but then not follow thru and actually file suit. To get around this rule, they will use language that sounds legal, but isn't.

In one situation, a debt collector in Buffalo, New York named their firm Hoffman, Weinberg & O'Brien to make it sound like they were a law firm. They would then leave messages on people's answering machines. They would say they were with the office of Hoffman, Weinberg & O'Brien and then say they may resort to future legal action. In addition, they would reference case number 8306042. If you didn't know any better, you would think the case number was for an actual lawsuit against you. Scary, right?

Most credit card accounts never sue (despite the constant threats.) Even when they do sue and get a judgment, they rarely ever attempt to garnish wages. A lot of judgments expire without getting paid. But, a lot of them get paid off when a person's income increases, or that person sells a valuable asset such as a house.

**Here is how to stop the harassing calls.** Simply ask the person who calls for their fax number or mailing address. Then, fax or mail them a letter that requests them to stop calling you.

Here is some sample language you can put into the letter.

*"Under my rights in the Fair Lending Law and the Fair Debt Collection Practices Act, I hereby request you stop any and all phone calls to me or any other person. At this time, I do not wish to speak with you, anyone at your company, or anyone representing you concerning this matter. Do not contact me by phone regarding this matter. I demand that you stop calling my at home, on my cell phone, at work, at my relatives house, or any other location. Please make any future communication with me in writing. I am aware of my rights under section 805(b)2 of the Fair Debt Collection Practices Act and am willing and able to exercise them. I am keeping track of all calls from your company and may consider recording calls."*

Make sure that when you mail the letter, you send it return receipt requested. If you have access to a fax machine, then fax it out. It's much easier and stops the calls quickly. Under the Fair Debt Collection Practices Act, a creditor or collection agency that calls you after you request them to stop may be liable for statutory damages up to \$1,000 plus any actual damages suffered, plus attorney fees.

Another tactic you can use to shut down any debt collector is to tell them you are recording the call. They back off when they realize they are on tape. You can buy an inexpensive call recorder at Radio Shack or Amazon.com. Just hook it up to your phone and you're ready to go. In addition, you may want to keep a log of all phone calls from debt collectors. This can be useful if you ever have to go to court.

After reading the Fair Debt Collection Practices Act, in my opinion, the following acts are prohibited:

**Violation #1:** Call you before 8 AM or after 9PM.

**Violation #2:** Tell your relatives, family, or friends that you owe them money, or state that they are in the debt collection business when they contact any relatives, family, or friends.

**Violation #3:** Contact you after you send a written request that they cease further communication.

**Violation #4:** Contact you after you request they cease.

**Violation #5:** Threaten you with violence. In addition, they are prohibited from using obscene or profane language.

**Violation #6:** Publicize a list of people who owe them money.

**Violation #7:** Cause your phone to ring repeatedly or continuously to annoy you.

**Violation #8:** Call you without telling you who they are and why they are calling.

**Violation #9:** Attempt to mislead you. Or, they falsely represent the amount owed, that they are an attorney or law firm, that if you don't pay then you'll go to jail, state or claim that you committed a crime, or threaten to take an action that is not allowed legally.

**Violation #10:** Not informing you that any information obtained can be used for the purpose of collecting their debt.

**Violation #11:** Threaten to repossess any property that they legally don't have the right to repossess. I remember hearing a lady calling a national talk show and saying that a debt collector had threatened to repossess her cat. What is this world coming to?! That is definitely a violation! Cats, dogs, and children are not normally given as collateral against loans. This isn't the Middle Ages here!

**Violation #12:** Threaten to sue you and then not follow thru with it. In addition, they are not allowed to threaten to do anything unless they actually intend to follow thru with it.

There are many good lawyers who specialize in helping consumers when a debt collector violates the act. Just Google "Fair Debt Collections Lawyer." Many of them can help you at no cost out of pocket. They will take on your case on a contingency basis and get paid from the money they collect from the debt collector.

# Frequently Asked Questions on FHA Loan Modification

(From HUD's website)

**Question 1:** In utilizing the Loan Modification option to bring an asset current, can the mortgagee include all fees and corporate advances?

**Answer:** Mortgagee Letter 2008-21 states in part: Legal fees and related foreclosure costs for work actually completed and applicable to the current default episode may be capitalized into the modified principal balance.

**Question 2:** May a mortgagee perform an interior inspection of the property if they have concerns about property condition?

**Answer:** Yes, per Mortgagee Letter 2000-05, page 20, the mortgagee may conduct any review it deems necessary to verify that the property has no physical conditions which adversely impact the mortgagor's continued ability to support the modified mortgage payment.

**Question 3:** Can a mortgagee include late charges in the Loan Modification?

**Answer:** Mortgagee Letter 2008-21 states that accrued late charges should be waived by the mortgagee at the time of the Loan Modification.

**Question 4:** When utilizing a Loan Modification option, can a mortgagee capitalize an escrow advance for Homeowner's Association fees?

**Answer:** HUD Handbook 4330.1 REV-5, Paragraph 2-1, Section B, Escrow Obligations states: Mortgagees must also escrow funds for those items which, if not paid, would create liens on the property positioned ahead of the FHA-insured mortgage.

**Question 5:** Is there a new basis interest rate which mortgagees may assess when completing a Loan Modification?

**Answer:** Yes, Mortgagee Letter 2009-35 states that the Mortgagee shall reduce the Loan Modification note rate to the current Market Rate. Please refer to Mortgagee Letter 2009-35 for more details.

**Question 6:** Are mortgagees required to re-amortize the total amount due over 360 month period?

**Answer:** Yes, per Mortgagee Letter 2009-35, the Mortgagee must re-amortize the total unpaid amount due over a 360 month period from the due date of the first installment required under the modified mortgage.

**Question 7:** What date is utilized when determining the correct interest rate for a Loan Modification?

**Answer:** The date the Mortgagee approves the Loan Modification (all verification completed and servicing notes documented, reported to SFDMS) is the date that Mortgagees are to use in determining the interest rate.

**Question 8:** Will HUD subordinate a Partial Claim; should a mortgagor subsequently default and qualify for a Loan Modification?

**Answer:** If a mortgagor subsequently defaults and qualifies for a Loan Modification, HUD will subordinate the Partial Claim.

**Question 9:** Are mortgagees required to perform an escrow analysis when completing a Loan Modification?

**Answer:** Yes, mortgagees are to perform a retroactive escrow analysis at the time the Loan Modification to ensure that the delinquent payments being capitalized reflect the actual escrow requirements required for those months capitalized.

**Question 10:** Can a mortgagee qualify an asset for the Loan Modification option when the mortgagor is unemployed, the spouse is employed, but the spouse name is not on the mortgage?

**Answer:** Based upon this scenario, the mortgagee should conduct a financial review of the household income and expenses to determine if

surplus income is sufficient to meet the new modified mortgage payment, but insufficient to pay back the arrearage. Once this process has been completed the mortgagee should then consult with their legal counsel to determine if the asset is eligible for a Loan Modification since the spouse is not on the original mortgage.

**Home Affordable Modification Program Guidelines**  
**March 4, 2009**

*Trial loan modifications consistent with these Guidelines may be offered to homeowners beginning on this date, March 4, 2009, and may be considered for acceptance into the Home Affordable Modification Program upon completion of the trial period and other conditions. These Guidelines, however, do not constitute a contract offer binding on the Department of the Treasury.*

**Program Elements Described in the Guidelines**

<p><b>Monthly Payment Reduction Cost Share:</b></p>	<p>Treasury will partner with financial institutions to reduce homeowners' monthly mortgage payments. The lender will have to first reduce payments on mortgages to no greater than 38% Front-End Debt-to-Income (DTI) ratio. Treasury will match further reductions in monthly payments dollar-for-dollar with the lender/investor, down to a 31% Front-End DTI ratio for the borrower.</p>
<p><b>Servicer Incentive Payments and Pay for Success Fees:</b></p>	<p>Servicers will receive an up-front Servicer Incentive Payment of \$1,000 for each eligible modification meeting guidelines established under this initiative. Servicers will also receive Pay for Success payments -as long as the borrower stays in the program - of up to \$1,000 each year for up to three years.</p> <p>Similar incentives will be paid for Hope for Homeowner refinances.</p>
<p><b>Borrower Pay-for-Performance Success Payments:</b></p>	<p>Borrowers are eligible to receive a Pay-for-Performance Success Payment that goes straight towards reducing the principal balance on the mortgage loan as long as the borrower is current on his or her monthly payments. Borrowers can receive up to \$1,000 of Pay-for-Performance Success Payments each year for up to five years.</p>
<p><b>Current Borrower One-Time Bonus Incentive:</b></p>	<p>One-time bonus incentive payments of \$1,500 to lender/investors and \$500 to servicers will be provided for modifications made while a borrower is still current on mortgage payments. The servicer will be required to maintain records and documentation evidencing that the Trial Period payment arrangements were agreed to while the borrower was less than 30 days delinquent. The servicer must comply with any express pooling and servicing contractual restrictions for modifying current loans.</p>



<b>Program Payment Conditions</b>	No payments under the program to the lender/investor, servicer, or borrower will be made unless and until the servicer has entered into the program agreements with Treasury's financial agent. Servicers must enter into the program agreements with Treasury's financial agent no later than December 31, 2009.
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**Eligibility Requirements**

<b>Pooling and Servicing Agreements:</b>	The program guidelines reflect usual and customary industry standards for mortgage loan modifications contained in typical servicing agreements, including pooling and servicing agreements (PSAs) governing private label securitizations. Participating servicers are required to consider all eligible loans under the program guidelines unless prohibited by the rules of the applicable PSA and/or other investor servicing agreements. Participating servicers are required to use reasonable efforts to remove any prohibitions and obtain waivers or approvals from all necessary parties.
<b>Origination Date of Loan Subject to Modification:</b>	The mortgage to be modified must have been originated on or before January 1, 2009.
<b>Program Expiration:</b>	New borrowers will be accepted until December 31, 2012. Program payments will be made for up to five years after the date of entry into a Home Affordable Modification. Monitoring will continue through the life of the program.
<b>Qualification Terms:</b>	<ul style="list-style-type: none"> <li>• The home must be an owner occupied, single family 1-4 unit property (including condominium, cooperative, and manufactured home affixed to a foundation and treated as real property under state law).</li> <li>• The home must be a primary residence (verified with tax return, credit report, and other documentation such as a utility bill).</li> <li>• The home may not be investor-owned.</li> <li>• The home may not be vacant or condemned.</li> <li>• Borrowers in bankruptcy are not automatically eliminated from consideration for a modification.</li> <li>• Borrowers in active litigation regarding the mortgage loan can qualify for a modification without waiving their legal rights.</li> <li>• First lien loans must have an unpaid principal balance (prior to capitalization of arrearages) equal to or less than: <ul style="list-style-type: none"> <li>○ 1 Unit: \$729,750</li> <li>○ 2 Units: \$934,200</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>○ 3 Units: \$1,129,250</li> <li>○ 4 Units: \$1,403,400</li> </ul>
<b>In Foreclosure Process:</b>	Any foreclosure action will be temporarily suspended during the trial period, or while borrowers are considered for alternative foreclosure prevention options. In the event that the Home Affordable Modification or alternative foreclosure prevention options fail, the foreclosure action may be resumed.
<b>Current LTV:</b>	There is no minimum or maximum LTV ratio for eligibility purposes.
<b>Loan Type Exclusions:</b>	Loans can only be modified under the Home Affordable Modification program once.
<b>Subordinate Financing:</b>	Subordinate liens are not included in the Front-End DTI calculation, but they are included in the Back-End DTI calculation.
<b>Solicitation to Borrowers/ Incoming Inquiries:</b>	Servicers should follow any existing express contractual restrictions with respect to solicitation of borrowers for modifications.

### Underwriting Analysis

<b>Front-End DTI Target:</b>	<p>Front-End DTI is the ratio of PITIA to Monthly Gross Income. PITIA is defined as principal, interest, taxes, insurance (including homeowners insurance and hazard and flood insurance) and homeowners association and/or condominium fees. Mortgage insurance premiums are excluded from the PITIA calculation.</p> <p>The Front-End DTI Target is 31%. The Standard Waterfall step that results in a Front-End DTI closest to 31%, without going below 31%, will satisfy the Front-End DTI Target. There is no restriction on reducing Front-End DTI below 31%, but any portion of the reduction below 31% will not be covered by the Payment Reduction Cost Share.</p>
<b>Property Value:</b>	The servicer may use, at its discretion, either one of the government sponsored enterprises (GSEs) automated valuation model (AVM) - provided that the AVM renders a reliable confidence score - or a broker price opinion (BPO).



	<p>As an alternative, the servicer may rely on the AVM it uses internally provided that (i) the servicer is subject to supervision by a Federal regulatory agency, (ii) the servicer's primary Federal regulatory agency has reviewed the model and/or its validation and (iii) the AVM renders a reliable confidence score.</p> <p>If the GSE or servicer AVM is unable to render a value with a reliable confidence score, the servicer must obtain an assessment of the property value utilizing a property valuation method acceptable to the servicer's Federal regulatory agency, <i>e.g.</i> in accordance with the Interagency Appraisal and Evaluation Guidelines (as though such guidelines apply to loan modifications), or a BPO.</p> <p>In all cases, the property valuation may not be more than 60 days old.</p>
<p><b>Income and Asset Validation:</b></p>	<p>The borrower's income will be verified by requiring a signed Form 4506-T (Request for Transcript of Tax Return) and obtaining the most recent tax return on file for each borrower on the note. For wage earners, the two most recent pay stubs for each wage earner on the note will also be required. For self-employed borrowers or for non-wage income, the borrower's income will be verified by obtaining other third party documents that provide reasonably reliable evidence of income.</p> <p>Borrowers must also represent and warrant that they do not have sufficient liquid assets to make their monthly mortgage payments.</p>
<p><b>Monthly Gross Income:</b></p>	<p>The borrower's Monthly Gross Income is the amount before any payroll deductions includes wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, other compensation for personal services, Social Security payment, including Social Security received by adults on behalf of minors or by minors intended for their own support, annuities, insurance policies, retirement funds, pensions, disability or death benefits, unemployment benefits, rental income and other income.</p> <p>Monthly net income can be used for preliminary screening and qualification. If used, the servicer will need to multiply net income by 1.25 to get to an estimate of Monthly Gross <a href="#">Income</a></p>
<p><b>Back-End DTI:</b></p>	<p>The Back-End DTI is the ratio of the borrower's total monthly debt payments (such as Front-End PITIA, any mortgage insurance premiums, payments on all installment debts, monthly payments on all junior liens, alimony, car lease payments, aggregate negative net rental income from</p>



	<p>all investment properties owned, and monthly mortgage payments for second homes) to the borrower's Monthly Gross Income. The servicer must validate monthly installment, revolving debt and secondary mortgage debt by pulling a credit report for each borrower or a joint report for a married couple. The servicer must also consider information obtained from the borrower orally or in writing concerning incremental monthly obligations.</p> <p>Borrowers who otherwise qualify for a modification under this program, but who would have a post-modification Back-End DTI greater than or equal to 55%, will be provided with a letter stating that they are required to work with a HUD-approved counselor and the modification will not take effect until they provide a signed statement indicating that they will obtain counseling.</p>
<p><b>Reasonably Foreseeable / Imminent Default:</b></p>	<p>Every potentially eligible borrower who calls or writes in to their servicer in reference to a modification must be screened for hardship. This screen must ascertain whether the borrower has had a change in circumstances that causes financial hardship, or is facing a recent or imminent increase in the payment that is likely to create a financial hardship (payment shock). If the borrower reports a material change in circumstances, the servicer must ask about current income and assets, and current expenses as well as the specific circumstances relating to the claimed financial hardship. Each of these elements shall be verified through documentation.</p> <p>If the servicer determines that a non-defaulted borrower facing a financial hardship is in Imminent Default and will be unable to make his or her mortgage payment in the immediate future, the servicer must apply the NPV Test.</p>
<p><b>Required Modifications and Optional Modifications:</b></p>	<p>A standard NPV Test will be required on each loan that is in Imminent Default or is at least 60 days delinquent under the MBA delinquency calculation. This NPV Test will compare the net present value (NPV) of cash flows expected from a modification to the net present value of cash flows expected in the absence of modification. If the NPV of the modification scenario is greater, the NPV result is deemed positive.</p> <p>The NPV Test applies to the Standard Waterfall only and does not require consideration of principal forgiveness. However, the servicer may choose to forgive principal if the servicer determines that principal forgiveness improves the likelihood of loan performance and the value of modification. Required parameters for the NPV Test will be published separately.</p>



	<p>If the NPV Test generates a positive result when applying the Standard Waterfall, the servicer is required to offer a Home Affordable Modification to the borrower. If the NPV Test generates a negative result, modification is optional, unless prohibited under contract. The monthly payment reduction incentive is available for any Home Affordable Modification, whether or not NPV positive, that meets the eligibility requirements and is performed according to the waterfall described below.</p> <p>If the NPV Test result is negative and a Home Affordable Modification is not pursued, the lender/investor must seek other foreclosure prevention alternatives, including alternative modification programs, deed-in-lieu and short sale programs.</p>
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**Loan Modification and Standard Waterfall**

<p><b>Overview:</b></p>	<p>Servicers will follow the Standard Waterfall described below to reduce monthly payments to the 31% Front-End DTI Target defined above. The initiative will reimburse lenders/investors for one half of the cost of reducing monthly payments from a level consistent with a 38% Front-End DTI Ratio (or less, if the unmodified DTI is less than 38%) down to a level consistent with a 31% Front-End DTI Ratio. This Payment Reduction Cost Share can last for up to five years.</p>
<p><b>Hope for Homeowners:</b></p>	<p>Servicers will be required to consider a borrower for refinancing into the Hope for Homeowners program when feasible. Servicer incentive payments will be paid for Hope for Homeowner refinances.</p> <p>If the underwriting process for a Hope for Homeowners refinance would delay eligible borrowers from receiving a modification offer, servicers will use the Standard Waterfall to begin the Home Affordability Modification and work to complete the Hope for Homeowners refinance during the Trial Modification Period.</p> <p>Consideration for a Hope for Homeowners refinance should not delay eligible borrowers from receiving a modification offer and beginning the Trial Modification Period.</p>
<p><b>Standard Waterfall Process:</b></p>	<p>Step 1a: Request Monthly Gross Income as specified above.</p> <p>Step 1b: Validate total first lien debt and monthly payments (PITIA). For</p>



purposes of making a provisional modification offer during the trial modification period, the borrower's unverified income and debt payments can be used. Provisional information and modification terms will be verified in a timely manner.

Step 2: Capitalize arrearage. Servicers may capitalize accrued interest, past due real estate taxes and insurance premiums, delinquency charges paid to third parties in the ordinary course of servicing and not retained by the servicer, any required escrow advances already paid by the servicer and any required escrow advances by the servicer that are currently due and will be paid by the servicer during the Trial Period. Late fees are not capitalized.

Step 3: Target a Front-End DTI of 31%. The lender/investor shall follow steps 4, 5, and 6 to reduce the borrower's payment to the level corresponding to the Front-End DTI Target.

Step 4: Reduce the interest rate to reach the Front-End DTI Target (subject to a floor of 2%). The note rate should be reduced in increments of 0.125 %, and should bring the monthly payment as close as possible to the Front-End DTI Target without going below 31%. If the resulting modified interest rate is at or above the Interest Rate Cap, this modified interest rate will be the new note rate for the remaining loan term. If the resulting modified interest rate is below the Interest Rate Cap, this modified interest rate will be in effect for the first five years, followed by annual increases of 1% (100 basis points) per year or such lesser amount as may be needed until the interest rate reaches the Interest Rate Cap, at which time it will be fixed for the remaining loan term.

Step 5: If the Front-End DTI Target has not been reached, extend the term of the loan up to 40 years. If term extension is not permitted extend amortization. The 40-year term begins at the start of the modification (after the borrower successfully completes the Trial Period). Note that the servicer should only extend to a term that is necessary to reach the Front-End DTI Target; there is no requirement to extend to a 40-year [term](#).

Step 6: If the Front-End DTI Target has not been reached, forbear principal. If there is a principal forbearance amount, a balloon payment of that forbearance amount is due on the maturity date, upon sale of the property, or upon payoff of the interest bearing balance. If the modification does not pass the NPV Test and the servicer chooses to modify the loan, the modified balance must be no lower than the current property value.



<p><b>Principal Reduction Option:</b></p>	<p>There is no requirement to use principal reduction under the Home Affordable Modification program; however, servicers may forgive principal to achieve the Front-End DTI Target.</p> <p>Principal forgiveness can be used on a standalone basis or before any step in the Standard Waterfall process. If principal forgiveness is used, subsequent steps in the Standard Waterfall may not be skipped. If principal is forgiven and the rate is not reduced, the rate will be frozen at its existing level and treated as a modified rate for the purposes of the Interest Rate Cap.</p> <p>In the event of principal forgiveness, the Payment Reduction Cost Share continues to be based on the change in the borrower's monthly payment from 38% to 31% Front-End DTI ratio and is limited to five years.</p>
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**Modification Terms**

<p><b>Interest Rate Floor:</b></p>	<p>The Interest Rate Floor for modified loans is 2%.</p>
<p><b>Interest Rate Cap:</b></p>	<p>The modified interest rate must remain in place for five years, after which time the interest rate will be gradually increased 1% (100 basis points) per year or such lesser amount as may be needed until it reaches the Interest Rate Cap.</p> <p>The Interest Rate Cap for the modified loan is the lesser of (i) the fully indexed and fully amortizing original contractual rate or (ii) the Freddie Mac Primary Mortgage Market Survey rate for 30-year fixed rate conforming mortgage loans, rounded to the nearest 0.125%, as of the date that the modification document is prepared.</p> <p>If the modified rate exceeds the Freddie Mac Primary Mortgage Market Survey rate in effect on the date the modification document is prepared, the modified rate will be the new note rate for the remaining loan term.</p>



<b>Principal Forbearance:</b>	<p>No interest will accrue on the forbearance amount.</p> <p>If the option to forebear principal is selected, the servicer shall forbear on collecting the deferred portion of the Capitalized Balance until the earliest of (i) the maturity of the modified loan, (ii) a sale of the property, or (iii) a pay-off or refinancing of the loan.</p>
<b>Redefaulting Loans:</b>	<p>A loan will be considered to have redefaulted when the borrower reaches a 90-day delinquency status under the MBA delinquency calculation. Redefaulting Loans will be terminated from the program, and no further payments of any kind will be made to the lender/investor, servicer, or borrower. Redefaulting Loans should be considered for other loss mitigation programs prior to being referred to foreclosure.</p>

**Approval Conditions**

<b>Trial Period Required:</b>	<p>Successful completion of the trial modification period and entry into program agreements between the servicer and Treasury's financial agent are prerequisites for any payments to the lender/investor, servicer, or borrower.</p> <p>Modification is effective the first calendar month following the successful completion of the Trial Period. Successful completion means that the borrower is current (under the MBA delinquency calculation) at the end of the Trial Period.</p> <p>Borrowers in foreclosure restart states will be considered to have failed the Trial Period if they are not current at the time the foreclosure sale is scheduled.</p> <p>No payments under the program to the lender/investor, servicer, or borrower will be made during the Trial Period. No payments under the program to the lender/investor, servicer, or borrower will be made if the Trial Period is not completed successfully. No payments under the program to the lender/investor, servicer, or borrower will be made unless and until the servicer has entered into the program agreements with Treasury's financial agent.</p>
<b>Length of Trial Period:</b>	<p>The Trial Period will last 90 days (three payments at modified terms) or longer if necessary to comply with investor contractual obligations. The</p>



	borrower must be current at the end of the Trial Period to obtain a Home Affordable Modification.
<b>Escrows:</b>	Servicers are required to escrow for modified borrowers' real estate taxes and mortgage-related insurance payments immediately if they have the capability of processing these payments or are already using a third-party vendor for this purpose. Servicers who do not have this capacity must implement an escrow process within six months of the program agreement.
<b>Counseling Requirements:</b>	For borrowers with a Back-End DTI of 55% or higher, the servicer must inform the borrower of the availability and advantages of counseling and provide a list of local HUD-approved counselors. The servicer must provide the borrower with a letter stating that counseling is a requirement of the modification terms. This letter may be required by counselors in order to begin counseling. The modification will not take effect until the borrower represents in writing that he or she will obtain counseling.
<b>Assumable:</b>	If the modified loan was assumable prior to modification, a Home Affordable Modification cancels this feature.

### Fees/Charges

<b>Modification Fees and Charges to Borrower:</b>	There are no modification fees or charges borne by the borrower.
<b>Modification Fees and Charges Reimbursable by Investor:</b>	Modification fees and charges to the servicer will be reimbursable by the investor. These include notary fees, property valuation and other required fees. Servicer reimbursement by the investor will take place within the normal process between the servicer and the investor.
<b>Unpaid Late Fees Waived:</b>	Unpaid late fees will be waived for the borrower. These include late fees prior to the start of the Trial Period and accrued during the period.
<b>Credit Report:</b>	The servicer will cover the cost of the credit report.



## Compensation

<b>Servicer Compensation:</b>	<p>Compensation is provided to the servicer that performs the loss mitigation or modification activities. Upon modification following successful completion of the Trial Period, and contingent on signing the program servicer agreement, the servicer will receive an incentive fee of \$1,000 for each eligible modification meeting Home Affordable Modification guidelines.</p> <p>Servicers will also receive Pay for Success fees - payable 12 months from the effective date of the Trial Period as long as the borrower continues in the program - of up to \$1,000 each year for three years. Servicers will no longer receive Pay for Success incentive payments for Redefaulting Loans or for loans that have paid off subject to certain <i>de minimis</i> constraints (discussed below).</p> <p>For loans modified while still current under the MBA delinquency calculation, the servicer will receive a Current Borrower One-Time Incentive of \$500 following successful completion of the Trial Period.</p> <p>Lenders that service their own loans are eligible for these incentives. Throughout this document the term "servicer" means the party that is responsible for performing the modification activities.</p> <p>Similar incentives will be paid for Hope for Homeowner refinances.</p>
<b>Borrower Cash Contribution:</b>	<p>The investor may not require the borrower to contribute cash.</p>
<b>Lender/Investor Compensation:</b>	<p>Lenders/investors will be compensated only in the event that the Front-End DTI Target or a lower Front-End DTI is achieved. Lenders/investors will follow the Standard Waterfall specified above to reach a monthly payment that satisfies the Front-End DTI Target. As described above, Treasury will provide compensation based on one half of the dollar difference between the monthly payment for a 31% Front-End DTI Ratio and the lesser of (i) the monthly payment for a 38% Front-End DTI Ratio or (ii) the borrower's current monthly payment. This compensation will be provided for up to five years or until the loan is paid off.</p> <p>Upon a modification becoming effective following successful completion of the Trial Period by a borrower who was current prior to the start of the Trial Period, lenders/investors will be paid a \$1,500 Current Borrower One-Time Incentive, subject to certain <i>de minimis</i> constraints (discussed below).</p>



	<p>No monthly lender/investor payments will be made during the Trial Period. Monthly lender/investor payments will begin after the Trial Period is successfully completed, the servicer signs a service agreement with Treasury, and formal modification begins. No monthly lender/investor payments will be made if the Trial Period is not completed successfully.</p>
<p><b>Borrower Compensation:</b></p>	<p>Borrowers will be eligible to accrue up to \$1,000 each year in Pay-for-Performance Success Payments for up to five years, a total of up to \$5,000 over five years, subject to certain <i>de minimis</i> constraints (discussed below). Accruals are based on on-time payment performance. The first annual principal balance reduction will be effective 12 months after entering the Trial Period as long as the borrower is not terminated from the program. In any given month, the borrower's mortgage payment must be made on time, accounting for standard servicer grace periods, in order to accrue the monthly Pay for Performance Success Payment. The borrower will receive information on a monthly basis regarding the accrual of these payments.</p> <p>The payment will be directed to the servicer, who will reduce the principal balance by the payment amount (but not by more than \$1,000 per year) for five years if the borrower continues in the program. Payments are to be applied directly and entirely to reduce the principal balance, and any applicable prepayment penalties on partial principal prepayment made by the government must be waived. The equivalent of three months of Pay-for-Performance Success Payments will be made upon successful completion of the Trial Period, contingent upon the servicer signing a service agreement with the Treasury.</p> <p>Borrowers who are terminated from the program lose their right to outstanding accruals.</p>
<p><b><i>De Minimis</i> Constraint:</b></p>	<p>To qualify for servicer Pay for Success payments and borrower Pay for Performance Success Payments, the modification must reduce the monthly payment by a minimum of 6 %. The monthly payment is the PITIA payment, as used in defining DTI, with the loan fully indexed and fully amortized.</p> <p>When paid, servicer annual Pay for Success payments and borrower Pay for Performance Success Payments will be the lesser of (i) \$1,000 or (ii) half the reduction in the borrower's annualized monthly payment.</p> <p>The <i>de minimis</i> constraint does not apply to the up-front Servicer</p>



	Incentive Payment, the Payment Reduction Cost Share, or the Home Price Depreciation Reserve Payment.
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**Consumer Protection**

<b>Disclosure</b>	When promoting or describing loan modifications, servicers should provide borrowers with information designed to help them understand the modification terms that are being offered and the modification process. Servicers also must provide borrowers with clear and understandable written information about the material terms, costs, and risks of the modified mortgage loan in a timely manner to enable borrowers to make informed decisions.
<b>Fair Lending</b>	Servicers' modifications under this program must comply with the Equal Credit Opportunity Act and the Fair Housing Act, which prohibit discrimination on a prohibited basis in connection with mortgage transactions. Loan modification programs are subject to the fair lending laws, and servicers and lenders should ensure that they do not treat a borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income in connection with any loan modification. These laws also prohibit redlining.
<b>Consumer Inquiries and Complaints</b>	Servicers should have procedures and systems in place to be able to respond to inquiries and complaints relating to loan modifications. Servicers should ensure that such inquiries and complaints are provided fair consideration, and timely and appropriate responses and resolution.

**Monitoring**

<b>Documentation:</b>	<p>Servicers will be required to maintain records of key data points for verification/compliance reviews. These documents may include, but are not limited to, borrower eligibility and qualification, underwriting criteria, and incentive payments. These documents also include a hardship affidavit, which every borrower is required to execute.</p> <p>Borrowers will be required to provide declarations under penalty of perjury attesting to the truth of the information that they have provided to the servicer to allow the servicer to determine the borrower's eligibility for entry into the Home Affordable Modification Program.</p>
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	Detailed guidance on data requirements will be released separately.
<b>Anti-Fraud Measures:</b>	<p>Measures to prevent and detect fraud, such as documentation and audit requirements, will be described in the servicer guidelines and the program guidelines in the financial agency agreements with Fannie Mae and Freddie Mac. Additional fraud protection measures will be announced by Treasury.</p> <p>Participating servicers and lenders/investors are not required to modify the loan if there is reasonable evidence indicating the borrower submitted false or misleading information or otherwise engaged in fraud in connection with the modification. Servicers should employ reasonable policies and/or procedures to identify fraud in the modification process.</p>
<b>Data Collection:</b>	Servicers will be required to collect and transmit borrower and property data in order to ensure compliance with the program as well as to measure its effectiveness. Data elements may include data needed to perform underwriting analysis, loan modification and waterfall analysis, and modification terms. In addition, borrower profiles and property level information may be included. Detailed guidance on data requirements will be released separately.
<b>Accounting and Legal:</b>	The provisions of the Program should not be construed to override, void or in any way modify the responsibility of the management of lenders and servicers for preparing financial statements and regulatory reports in accordance with all applicable generally accepted accounting principles, including standards such as Statement of Financial Accounting Standards (SFAS) No. 15, <i>Accounting by Debtors and Creditors for Troubled Debt Restructurings</i> , SFAS No. 114, <i>Accounting by Creditors for Impairment of a Loan</i> , SFAS No. 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> , SFAS No. 140, <i>Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</i> , and AICPA Statement of Position 03-3, <i>Accounting for Certain Loans or Debt Securities Acquired in a Transfer</i> , and their related amendments and interpretations.

### Other Program Features

<b>Home Price Depreciation Payments:</b>	To encourage lenders/investors to modify more mortgages, compensation will be provided to partially offset probable losses from home price declines. This will be structured as a simple cash payment on each modified loan while the loan remains active in the program.
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<b>Payments for Short Sales and Deeds-in-Lieu:</b>	Compensation will be provided to servicers and borrowers in order to facilitate short sales or deeds-in-lieu in those cases in which borrowers either fail the net present value (NPV) test (described below) or fail to qualify for, or default under, the modification program.
<b>Second Lien Elimination Payments:</b>	To reduce the borrower's overall indebtedness and improve loan performance, additional incentives will be provided to extinguish junior liens on homes with first-lien loans that are modified under the program.
<b>Government Loan Programs:</b>	FHA, VA and rural housing loans will be addressed through standalone modification programs run by those agencies. FHA's Hope for Homeowners refinancing program will also be included in a parallel incentive program.



## Net Present Value Model Parameters

<p><b>NPV Test:</b></p>	<p>An NPV Test will be required on each loan that is in Imminent Default or is at least 60 days delinquent under the MBA delinquency calculation. This NPV test will compare the net present value (NPV) of cash flows expected from a modification to the net present value of cash flows expected in the absence of modification. If the NPV of the modification scenario is greater, the NPV result is deemed positive, and the servicer must modify the loan (absent fraud, etc.) However, an "NPV positive" result is not necessary to qualify a loan for a Home Affordable Modification and the associated lender/investor, servicer, and borrower payments.</p>
<p><b>Standard NPV Model:</b></p>	<p>To provide a consistent and industry-wide approach to the required NPV Tests, Treasury will set forth a Standard NPV Model with parameters specified below. Complete details on each component outlined below are forthcoming.</p>
<p><b>Discount Rate:</b></p>	<p>The program allows the servicer to choose the Discount Rate to use in the NPV Model, subject to a program-determined ceiling that will be sensitive to the market-determined cost of funds. The ceiling on the allowable Discount Rate for the NPV Test is the Freddie Mac Primary Mortgage Market Survey rate (PMMS), plus a spread of 2.5 percentage points. The PMMS is the conventional mortgage rate published in the Federal Reserve's H.15 bulletin.</p> <p>The servicer may choose a different Discount Rate for loans in portfolio versus loans in investor pools, but may not otherwise apply different rates to different loans in the servicing book. For example, it may choose to use a Discount Rate equal to the PMMS + 2.0 percent for its investor pools and a Discount Rate equal to the PMMS for its loans in portfolio.</p>
<p><b>Cure Rate and Redefault Rate:</b></p>	<p>The Cure Rates and Redefault Rates will be obtained from a default equation with parameters based on GSE analytics and program portfolio data except where servicers use custom parameters (see below). Treasury, in consultation with an inter-agency team of government officials, will update these tables periodically based on incoming data.</p>
<p><b>Property Value:</b></p>	<p>Property value will be determined in accordance with the Guidelines.</p>



<p><b>Incentive Payments:</b></p>	<p>Incentive payments, including the Payment Reduction Cost Share, annual borrower performance bonus payments toward principal, and Current Borrower One-Time Bonus Incentive, will be determined in accordance with the Guidelines.</p>
<p><b>Other Parameters:</b></p>	<p>The remaining parameters will come from data sets held or produced by the Federal Housing Finance Agency: home price forecast, valuation of the house price depreciation reserve, foreclosure timelines, and foreclosure costs and REO stigma</p>
<p><b>NPV Test Customization:</b></p>	<p>Servicers having at least a \$40 billion servicing book will have an option to substitute a set of Cure Rates and Redefault Rates estimated based on the experience of their own aggregate portfolios. A servicer using this option should take into account, as feasible, current LTV, current DTI, current credit score, delinquency status, and other relevant variables the servicer identifies.</p> <p>The Cure and Redefault Rates must be empirically validated where possible. Servicer judgment regarding the effect of DTI is expected, given the limited data available and the likelihood that the new program will materially affect Cure and Redefault Rates. However, all assumptions must be tested as program data become available and revised as appropriate.</p> <p>A servicer who chooses to use customized Cure and Redefault Rates must apply the same assumptions for Cure and Redefault Rate to the entire servicing portfolio, without distinguishing between loans in portfolio and investor pools.</p> <p>Models and assumptions will be subject to review by federal bank supervisory agencies where applicable, and in all cases by Freddie Mac as program compliance agent.</p> <p>A servicer not meeting the size threshold may apply for permission to apply Cure Rates and Redefault Rates estimated based on the servicer's portfolio experience.</p>
<p><b>Mortgage Insurance:</b></p>	<p>For loans that have mortgage insurance (MI) coverage, the NPV Test will incorporate the value of the contingent claim payment in the event of default when evaluating projected foreclosure or modification scenarios. If the modification does not pass the NPV Test, then it will be referred to the appropriate MI company. The major MI companies have agreed to develop a mechanism by which they will pay partial claims where they deem appropriate to avoid foreclosure.</p>

# Example Hardship Letter:

Name: (Your Name)

Address: (Your Address)

Lender Name: (Your Lender)

Loan #: (your Loan #)

To Whom It May Concern:

I am writing this letter to explain my unfortunate set of circumstances that have caused us to become delinquent on our mortgage. We have done everything in our power to make ends meet but unfortunately we have fallen short and would like you to consider working with us to modify our loan. Our number one goal is to keep our home and we would really appreciate the opportunity to do that.

The main reason that caused us to be late is (insert reason here and don't be too lengthy and long winded) Soon after being late and our income not being nearly enough, we had fallen further and further behind. Now, it's to the point where we cannot afford to pay what is owed to (lender). It is our full intention to pay what we owe. But at this time we have exhausted all of our income and resources so we are turning to you for help.

(The approximate date of hardship and Â we believe that our situation Â is Temporary or will be Permanent.)

Our situation has got better because (reason here) and we feel that a loan modification would benefit us both. We would appreciate if you can work with us to lower or delinquent amount owed and or payment so we can keep our home and also afford to make amends with your firm.

We truly hope that you will consider working with us and we are anxious to get this settled so we all can move on.

Sincerely and Respectfully,

Borrower's Signature

Date

Co-Borrower's Signature

Date

## Basic Consumer Facts about the HOPE for Homeowners Program (From HUD's website)

<p><b>What is the HOPE for Homeowners Program?</b></p>	<p>This is a new program for borrowers at risk of default and foreclosure. The program provides new, 30-year, fixed rate mortgages that are insured by the Federal Housing Administration (FHA). It may help you refinance your mortgage into a more affordable payment. H4H is voluntary. Both lender(s) and borrower(s) must agree to participate.</p>
<p><b>When does H4H Begin?</b></p>	<p>The program begins October 1, 2008 and ends September 30, 2011.</p>
<p><b>Who is eligible?</b></p>	<p>You should contact your lender to determine eligibility, but you may be eligible if, among other factors:</p> <ul style="list-style-type: none"> <li>• The home is your primary residence, and you have no ownership interest in any other residential property, such as second homes.</li> <li>• Your existing mortgage was originated on or before January 1, 2008 and you have made at least six payments.</li> <li>• You are not able to pay your existing mortgage without help.</li> <li>• As of March 2008, your total monthly mortgage payments due were more than 31 percent of your gross monthly income.</li> <li>• You certify that you have not been convicted of fraud in the past 10 years, intentionally defaulted on debts; and</li> </ul>

	did not knowingly or willingly provide material false information to obtain existing mortgage(s).
<b>Who should I contact?</b>	FHA does not accept loan applications. Borrowers seeking help should contact their lender, another FHA-approved lender, or a housing counselor to apply or learn more about their options.
<b>How much can I borrow?</b>	Your new H4H mortgage will be no more than 90% of the new appraised value of your home with the lender essentially writing down your current mortgage to that amount.
<b>What costs do I have to pay?</b>	<ul style="list-style-type: none"> <li>• The new mortgage, if approved, will replace all of the current mortgages on your home. You will not owe any payments, fees or debts on mortgages you now hold.</li>   <li>• You must agree to share both the equity created at the beginning of this new mortgage and a portion of any future appreciation in the value of your home.</li>   <li>• In addition to an upfront mortgage insurance payment of 3%, you will pay a 1.5% annual mortgage insurance premium on your outstanding mortgage balance. This premium will be included in your monthly payments.</li>   <li>• You will need to pay closing costs on the loan. You will receive a Good Faith Estimate of these costs.</li> </ul>
<b>Will my new interest rate be lower than my current rate?</b>	The interest rate for the new mortgage will be based on current market interest rates and will be provided by the lender.
<b>I currently have a second mortgage. If needed, can I take out a second mortgage under this program?</b>	You cannot take out a second mortgage for the first five years of the loan, except under certain circumstances for emergency repairs.

**How can I learn more about the program and start the application process?**

- Review the Frequently Asked Questions page at [www.fha.gov](http://www.fha.gov) to learn more about the program.
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- Contact an FHA-approved lender to apply. You can find a list of lenders at [www.fha.gov](http://www.fha.gov)
  
- Contact a Housing Counselor. A list of Housing Counselors can be found at [www.fha.gov](http://www.fha.gov)