Foreclosure Prevention Training for Faith-Based Organizations

Community Relations

FREQUENTLY ASKED QUESTIONS

FAQ

- **What is a Modification?**

  Modification of the note is when the interest rate, unpaid principal balance and/or terms of the original note are changed. A modification workout is used to help the borrower bring the loan current by adding the delinquent interest to the principal balance and re-amortizing the balance up to a 360-month period. After the modification/repayment plan is complete, the loan will show as current. Any delinquencies that had occurred prior to the modification agreement will remain on the credit report.

- **What is a Moratorium?**

  A moratorium is a temporary suspension or reduction of the customer's regular monthly payment amount. Moratoriums are primarily used to help distressed borrowers recover and avoid a default and foreclosure situation. During a moratorium all credit bureau reporting and late charge assessing are stopped. Any delinquencies that occurred prior to the moratorium will remain on the customer’s credit history.

- **What is a Repayment Plan?**

  A repayment plan is used to help the borrower bring delinquent payments current. The delinquent payments are spread over a period of time (usually no more than 10 months). The delinquent amount increases the monthly payment and financial facts provided by the borrower will determine what payment amount will be required.

- **What is a Short Sale?**

  If it is determined that the borrower is unable to maintain the mortgage payments, the borrower is then encouraged to sell the property. If an appraisal shows the current market value is not enough to net the borrower enough funds to pay off the loan in full, then the borrower can request to participate in the short sale program. An appraisal is ordered and based on investor guidelines, the offer is reviewed and approved or denied. This will be reported as a Short Sale on the credit report – and not as a foreclosure.

FAQ (continued)

- **What is a Deed-In-Lieu?**

  The owner willingly signs over the property to prevent foreclosure proceedings. This is also known as voluntary conveyance of the property. Prior to approval of this type of workout, a title search is required to ensure that there are no junior liens because with a Deed-in-Lieu, the new owner will also be responsible for any judgments or liens attached to the property. This will be reported as a Deed-in-Lieu on the credit report – and not as a foreclosure.

- **What is a Workout Package?**

  It is a detailed financial worksheet that is sent to customers that cannot meet their current mortgage payments. Customers are required to provide financial information. Once completed, these forms are mailed to the servicer's Loss Mitigation department. Loss Mitigation reviews the information and determines a plan of resolution. It is the responsibility of the Loss Mitigation team to contact the member to assist in resolving the problem.

  The Workout Package consists of all documentation needed to request a workout. This package varies from workout to workout.. A basic package consists of a financial worksheet and the borrower's paycheck stubs. It includes a request for the homeowner to return the financial information, copies of their pay stubs, hardship letter and other documents as requested.

- **Will the interest rate be lowered with a modification?**

  Not always. It really depends on affordability and investor guidelines. It is not common for the interest rate to remain the same while term is extended and arrears capitalized.

FAQ (continued)

- **After a modification is complete, how could there be an escrow shortage?**
  Any existing escrow advances the mortgagor may have incurred through the delinquency of the loan should be included in the modification figures. It is also necessary to verify the cycle of the bills and make sure that another installment is not due; if so, this will also need to be collected per the modification. If any disbursements, such as taxes or insurance installments have increased, a shortage may be created in the escrow account.

- **Can a name be taken off the loan with a modification?**
  Borrowers are primarily released from a loan through a refinance or formal assumption.

- **After a modification is complete, can a mortgagor refinance?**
  Yes, but it recommended that a borrower allow a time period of 12-24 months of making payments. This will allow time for the current status of the loan and good payment history to be reflected. This may be beneficial when applying for a refinance.

- **How should the requested funds for any workout option be sent?**
  It is recommended that all contributions for any type of workout be sent in certified funds. This will reduce the time it takes to request another form of payment if funds are insufficient.

FAQ (continued)

- **What happens to the foreclosure when the modification is approved?**
  When the approval is received from the investor for any workout option the foreclosure is suspended. This will prohibit additional attorney fees and costs after the approval has been received. After the signed agreement and the contribution (if applicable) are received, the foreclosure is suspended.

- **How do the workout options affect credit reporting status?**
  If the loan is delinquent, the credit bureau status will reflect the delinquency of the payments. If any type of workout is approved, a stop is placed on the account that prevents the account from being reported to the credit bureau. A modification brings the account current. When the changes have been updated, the reporting will reflect “loan in good standing”. A short sale will reflect “paid in full, less than balance owed” status. A Deed-in-Lieu will reflect a zero balance and deeded the property back. Credit bureau reporting will once again be generated once everything is completed. However, old delinquencies will continue to report as will any public record reporting that the filing of a foreclosure may have generated.

- **Would a borrower need to make contribution on a short sale?**
  If a mortgagor is requesting a short sale, he or she must show an inability to afford the mortgage payments. By approving a short sale, the investor and/or mortgage insurance company takes a loss on the loan. In case by case situations, the Investor may require the borrower to contribute towards the loss incurred on the loan. This may be in the form of cash and/or promissory note. A negotiator, the investor, and the mortgage insurance company provide final approval for the contribution amount.

FAQ (continued)

- **Is a short sale an option for a property with a 2nd lien?**
  If a borrower is requesting a short sale with a second lien, we recommend that the borrower work with the second lien holder to release the lien. If the second will not release, the situation will require the further review of the Loss Mitigation Department. A 2nd lien sometimes prevents a short sale of the property.

- **Why are workout options offered?**
  By offering workout options to the borrower, we help create a win-win situation for all parties involved. The borrower, the investor, the mortgage insurance company, and the servicer are able to reduce losses and decrease the number of delinquent loans. This promotes customer satisfaction, and assists servicers, investors and mortgage insurance companies in reducing losses.

- **If the borrower's loan has been modified in the past, can it be re-modified?**
  In most instances, the answer is no. However, the loan can be reviewed for either a repayment plan (if the reason for delinquency is different) or for a partial claim (if an FHA loan). In rare situations, an investor may approve a 2nd modification.

- **What happens to workout options in progress when the borrower's loan is sold to another servicing company?**
  Representatives from both servicers need to work together to resolve the matter.

- **What is a Stipulated Repayment Plan?**
  This is a written agreement between the borrower and the lender defining terms of repayment for loans active in the foreclosure process. The borrower agrees to repay the delinquency over a specified time frame (usually not to exceed 10 months). The lender will suspend foreclosure upon receipt of initial payment and signed agreement. Non-compliance of defined terms will result in re-initiation of foreclosure.

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