

**PRESERVING
HOMEOWNERSHIP**

**FORECLOSURE
PREVENTION**

credit  **.org**



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About credit.org

We are a nonprofit organization founded in 1974.

We offer personal financial education and assistance with money, credit, and debt management through educational programs and confidential counseling.



CREDIBILITY • INTEGRITY • ACHIEVEMENT

Accredited by the Council on Accreditation (COA)



Approved by the Department of Housing & Urban Development (HUD)



Member of the Better Business Bureau (BBB)



Member of the National Foundation of Credit Counseling (NFCC)



Inland Empire Campaign Sponsor for America Saves



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Introduction

The seminar from credit.org provides resource information so you will know what action steps to take and what options are available to you:

- * if your mortgage becomes delinquent
- * you are facing foreclosure
- * you are facing mortgage interest reset which you can no longer afford once adjusted

You will know what options are available to you to work with your lender to avoid foreclosure, action steps and where you can go to seek legitimate help. Be wary of foreclosure rescue consultant schemes that claim to be helping you save your home. Call your lender/servicer, U.S. Department of Housing and Urban Development and local Better Business Bureau or check www.bbb.org to get a Reliability Report on any foreclosure rescue company.

Credit.org is certified by the U.S. Department of Housing and Urban Development (HUD) as a comprehensive housing counseling agency. The agency, based here in California, is one of the nation's leading nonprofit counseling agencies helping troubled homeowners seek solutions to avoid foreclosure.

HPF

Credit.org is one of the nonprofit agency partners of the Homeownership Preservation Foundation (HPF), providing foreclosure prevention counseling to homeowners nationwide 24 hours a day, seven days a week, through a toll-free hotline, 1-888-995-HOPE.



Purpose and Goals

- This seminar is not intended to provide legal, tax, or financial advice or opinions and should not be treated as such
- This presentation is for general informational purposes only and applies to homeowner-occupied residential property
- You will know what to do if your mortgage becomes delinquent or if you are facing foreclosure
- You will know the options that are available to you
- Get involved...take action

Early Intervention is Key

- A 2005 Freddie Mac / Roper study indicates over 50% the borrowers in foreclosure proceedings did not return contact from their lender
- Of those 61% were unaware of the variety of workout options that could help them overcome short-term financial difficulties
- Of those 92% said they would have talked to their servicers had they known these options were available to them
- Many people lose their homes because they are too ashamed or fearful to act, or are in denial about the seriousness of the problem



Not being able to make your home payment is scary.

However, approaching the problem quickly and knowledgeably, you may be able to turn a negative situation into a positive one.

Foreclosure affects more than just you.
It affects your whole family.

A million families will face losing their homes this year.

Call today for help.
Because nothing is worse than doing nothing.

1-888-995-HOPE

Acknowledgement: Adapted from HPF

Preserving Homeownership/Preventing Foreclosure

Life's Challenges



Divorce

Life Changing Events

Bills

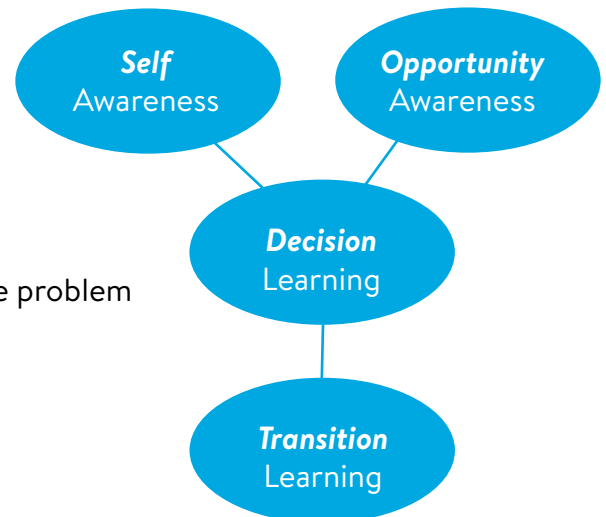
Adjustable Rate Mortgage (ARM) Reset

Job Loss

Illness

Self-Awareness

- Admit there is a problem
- Define the scope of the problem
- Be realistic about your ability and willingness to resolve the problem
- Find a workable solution



Acknowledgement: Adapted from HOPENOW Alliance

Define Terminology

- **Foreclosure:** is the legal action and repossession of your home by your lender. You will lose your property and any equity you had. The property is sold by your lender to pay off a mortgage in default
- **Notice of default (NOD) / Notice of intent (NOI):** are demand letters that notify the need to bring your mortgage current to stop a foreclosure. This letter may be referred to as a breach letter or demand letter. This notice is recorded after the default, or multiple missed loan payments outlining the mortgage servicers plan to begin the foreclosure process
- **Notice of Sale (NOS):** This establishes the foreclosure sale date
- **Servicer:** responsible for customer service, processing payments, and working with delinquent customers
- **Investor:** the owner of the loan
- **Insurer:** insures the lender/investor in case the loan becomes delinquent
- **Loss Mitigation:** working with the homeowner to find a permanent solution to resolve the delinquency and mitigate the loss
- **Collections:** the process of contacting you for and receiving delinquent amounts which are owed
- **Delinquency:** failing to make your payment timely to avoid payment being received on or after the due date
- **Hardships:** circumstances often beyond your control which have temporarily or permanently rendered you unable to meet mortgage obligations

Possible Delinquency Cycle

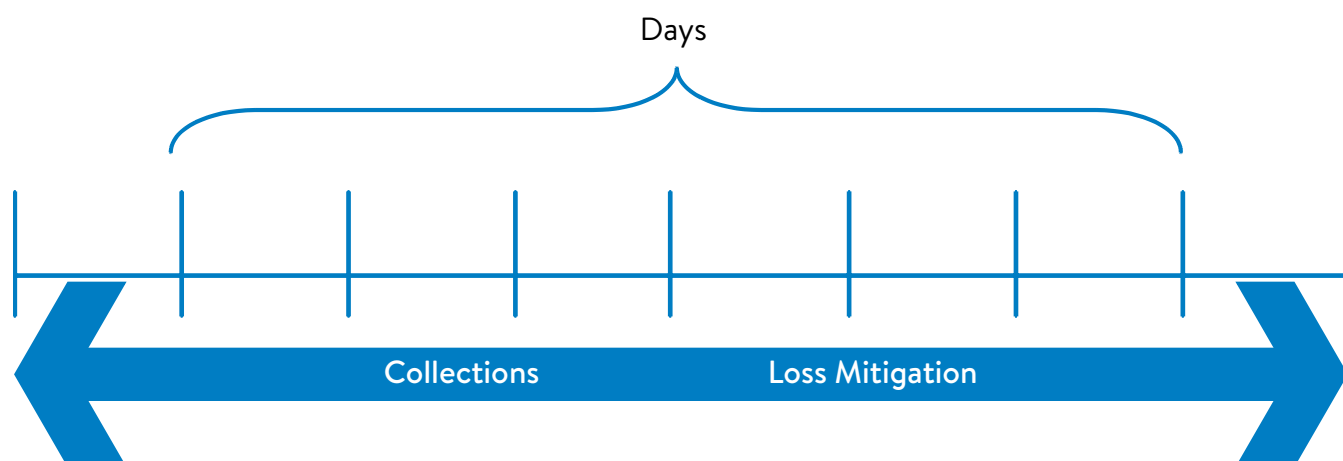
Current on
Due Date

30 Days

60 Days

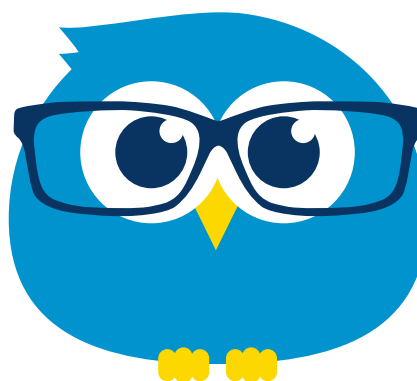
90+ Days

Refer to
Foreclosure



Timelines **vary** by your lender, your state's laws, and regulations.

More options
may be available
when you ask for
assistance **early**.



Acknowledgement: Adapted from HOPENOW Alliance

Do a Five-Step Assessment

STEP ONE: KNOW YOUR SHORTFALL

- Identify how close or far you are from being able to meet your mortgage payment
- Subtract the total of your monthly expenses from your monthly income – the final number represents the amount of money you'll need to make-up so you can pay your mortgage as agreed
- Accuracy is key avoid overestimating income or undercounting expenses

STEP TWO: EXPLORE BUDGETARY CHANGES

- Identify ways to close the deficit
- Carefully review your expenses and pinpoint areas where you can cut down to free up cash
- Are you able to sell some assets to meet next month's shortfall or live frugally for a couple of weeks, but what about after that?

STEP THREE: CONTACT YOUR LENDER

- If you are unable to make your normal mortgage payment on a regular basis by adjusting your cash flow, contact your lender
- Be ready to discuss your financial situation in detail
- When speaking with your lender, be honest and clear about your desires and abilities

STEP FOUR: BE OPEN TO OPTIONS

- You and your lender will discuss ways you may keep the home, which may include modifying the terms of the existing loan, making lower or no payments for a period of time, or refinancing the loan
- None of those solutions work? Consider selling the home or deeding it back to the lender. If it is worth less than the loan balance, you may be able to sell it for its current market value
- Ask about the **benefits and drawbacks** of each option before making a decision

STEP FIVE: TAKE ACTION

- Whatever you decide, don't wait with what you need to do. For example, if you gave your word that you will be back on track in three months by getting a second job, make sure you do so
- If you know it will be impossible to afford your mortgage payment, plan to find another living situation now and contact your lender to put the home up for sale or deed it back to the lender before the foreclosure process begins.
- Delaying action wastes precious time and money
- Don't let homeowner insurance coverage lapse – take action
- Contact your insurance agent to see if coverage can be reduced or if payment plans are available
- Advise your mortgage servicer they need to impose coverage

Acknowledgement: Adapted from CCCS San Francisco

Preserving Homeownership/Preventing Foreclosure

When You Are Delinquent

- Do not ignore the communications from your lender / loan servicer
- If you are having problems making your payments, call or write to your lender's Loss Mitigation Department without delay. Keep a folder with detailed notes of your communications (date, time, names, ph/ext#) and copies of all correspondence received and documents you mail. Send certified mail/return receipt requested
- Be prepared to explain your situation and provide your lender with your financial information, without this information, they may not be able to help
- Stay in your home during the process -- you may not qualify for assistance if you "walk-away" from your property
- Be wary of foreclosure rescue scam artists that claim to be helping you save your home

Beware of Foreclosure Rescue Scams

COMMON SCAM TYPES

- Phantom Help – NOD and foreclosure filings are public record. Therefore, be suspect of new “acquaintances” or “rescuers” that may arrive to “help” you
- Bailout – includes various schemes where homeowners surrender their title to the house “thinking” they will be able to remain as renters and buy the house back
- Bait and Switch – homeowners think they are signing documents for a new loan to make the mortgage current, but sign away the home and are left holding the mortgage on a home they no longer own
- Equity Stripping – a buyer purchases the home for the amount of the arrearage and flips the home for a quick profit

PROTECT YOURSELF FROM SCAMS

- Don’t panic
- Talk to your lender
- Find out the rules in your state – how much time do you have
- Never sign a contract under pressure
- Never sign away ownership of your property
- Don’t make payments to anyone other than your lender
- Beware of a home-sale contract where you aren’t formally released from your mortgage
- Don’t sign anything with blank lines or spaces
- If you don’t speak English, and a translator is needed, bring your own translator also
- Beware of those offering to pay your arrearage and take the house off of your hands (equity stripping)

From phony counselors to fake government modification programs, there are a ton of dubious loan programs floating around these days. The thieves are just waiting for you to nibble at their bait so they can steal your home, your identity, or both. To learn more about the public education campaign designed to help homeowners protect themselves against loan modification scams, find trusted help and report illegal activity to authorities visit: <http://www.loanscamalert.org>

Sign up for the national Do Not Call list 1-888-382-1222

Call 1-888-5 OPT OUT or online: www.optoutprescreen.com

Acknowledgement: Adapted from HOPENOW Alliance

Preserving Homeownership/Preventing Foreclosure

Mortgage Myths

Myth – Mortgage companies make money by foreclosing on properties

Fact – Legitimate mortgage lenders prefer to receive your loan payments, and will foreclose only as a last resort. The average foreclosure sale results in a \$40,000 - \$50,000 loss to the investor

Myth – A mortgage must be delinquent before assistance can be provided

Fact – Options are available to borrowers who are anticipating a hardship, contacting the servicer as early as possible is the key

Myth – The worse a borrower’s financial picture appears, the more likely they are to receive assistance from the mortgage company

Fact – A borrower must be able to demonstrate long term ability to afford the mortgage payment, along with their other obligations, to receive assistance in keeping the home

Myth – Since I am unable to make up the full mortgage payment(s) I missed -- it’s okay to spend the money elsewhere

Fact – It’s important to maintain those funds as your lender may require you to place an amount towards your arrearage as part of your “work out”

Acknowledgement: Adapted from Community HousingWorks

Role of the Counselor

Partnering for a Workable Solution



Acknowledgement: Adapted from HOPENOW Alliance

How Can Foreclosure Prevention Counseling Help Consumers?

HUD approved housing counseling agencies have counselors that provide one on one counseling to the borrower, taking into consideration individual personal financial situations

Counseling provides you with a budgetary review and action plan and may include working with both you and your lender to review options and work out a solution

The most important decision you can make is deciding if you want to keep your home

Mortgage Default

Homeowners who are in default need to find out what type of mortgage they have: FHA, VA, or conventional mortgage

Identify what has happened to cause you to miss your mortgage payment(s). I.E. Increase in payment amount for Adjustable Rate Mortgage? Events beyond your control (spouse illness/job loss)? Lenders will want documented evidence

REASONS FOR DEFAULT

- Increase in payment amount for Adjustable Rate Mortgage (ARMs)
- Layoff: With termination notice as documentation
- Involuntary Termination: Non-criminal
- Salary Reduction: In lieu of being laid-off off or receiving a demotion
- Medical Expenses or Illness: Costs beyond insurance, can't work
- Death: Income lost, burial expenses
- Employment relocation
- Temporary Loss of Wages: Lost part-time job, garnishment
- Workers Compensation Claim: Loss of full income, disability
- Necessary Repairs to Property: Essential only, leaks, damages
- Divorce/Separation: Reduction of income when one spouse moves
- Temporary Loss of Spousal or Child Support: Former spouse lost job

Options for Keeping Your Home

Loan Modification

Special Forbearance Plan

Repayment Plan

Partial Claim

Reinstatement



Acknowledgement: Adapted from HOPENOW Alliance

Lender – Required Documentation

- Letter explaining your circumstances (hardship letter)
- Disclosure of financial information:
 - Pay stubs
 - Tax returns and W-2 forms
 - Bank Statements
 - Debts and obligations
 - Assets
 - Other Documentation as requested



Loan Modification

Involves one or more of the loan terms. **Loan modification** is also referred to as a **workout** or **restructure**.

Involves changing one or more terms of the original mortgage agreement, usually:

- Delinquent payments and other costs may be added to the loan balance
- Reducing the interest rate, or reducing the principal portion of the payment
- Extending the repayment period by adding the number of years you have repay the loan

May result in a lower payment amount.

When requesting a loan modification you will be required to provide financial documentation along with a hardship letter stating the cause of your short-term financial difficulties and how those circumstances have now changed, such as a new form of income, etc.

MAKING HOME AFFORDABLE PROGRAM (MHA)

Offers three plans:

1) Home Affordable Modification Program

- Includes most conventional loans including prime, sub prime, adjustable, loans owned by lenders and loans in securities.
- A borrower may or may not be delinquent on mortgage to qualify.
- Must be an owner-occupant in a one to four unit property with a loan originated before January 1, 2009 with an unpaid principal balance that is equal to or less than \$729,750.00.
- The mortgage payment (including taxes, insurance, and homeowners association dues) must be more than 31% of the borrowers' gross monthly income, and experienced a significant change in income or expenses, to the point that the current mortgage payment is no longer affordable.
- If borrower does not meet the eligibility criteria or the investor is not participating in the program, the borrower should discuss other possible options and solutions.

Second Lien Program

The Second Lien Program announced April 2009 will work in tandem with the first lien modifications already offered under the Home Affordable Modification Program to deliver a comprehensive affordability solution for struggling borrowers.

Second mortgages can create significant challenges in helping borrowers avoid foreclosure, even when a first lien is modified. Up to 50 percent of at-risk mortgages have second liens, and many properties in foreclosure have more than one lien.

Under the Second Lien Program, when a Home Affordable Modification is initiated on a first lien, servicers participating in the Second Lien Program will automatically reduce payments on the associated second lien according to a pre-set protocol. Alternatively, servicers will have the option to extinguish the second lien in return for a lump sum payment under a pre-set formula determined by Treasury, allowing servicers to target principal extinguishment to the borrowers where extinguishment is most appropriate.

Second Lien Program Case Examples are also available at:
<http://www.financialstability.gov/docs/042809HousingExamples.pdf>

Principal Reduction Alternative (PRA) Program

A new and voluntary Principal Reduction Alternative (PRA) program is available 10/1/10. This voluntary program provides the servicer the flexibility to offer principal reduction relief to borrowers whose homes are worth significantly less than the remaining amounts due on their first lien mortgage.

2) Home Affordable Refinance Program

- Option is only available for conforming loans owned or securitized by Fannie Mae or Freddie Mac.
- The property must be owner occupied, borrower must be current and have sufficient income to support the new mortgage debt.
- The first mortgage may not exceed 125% of the current market value of the property.

To find out if your loan is owned or securitized by Fannie Mae or Freddie Mac, contact:

For Fannie Mae,
 1-800-7FANNIE (8am to 8pm EST).
www.fanniemae.com/homeaffordable

Freddie Mac
 1-800-FREDDIE (8am to 8pm EST)
www.freddiemac.com/avoidforeclosure

More information and program updates on the Homeowner Affordability and Stability Plan program are available at www.makinghomeaffordable.gov.

- As of April 2009, twelve servicers, including the five largest, have now signed contracts and begun Loan Modifications under the program.
- Between loans covered by these servicers and loans owned or securitized by Fannie Mae or Freddie Mac, more than 75% of all loans in the country are now covered by the Making Home Affordable Program.
- Program Update Fact Sheet, available at:
<http://www.treas.gov/press/releases/reports/042809secondlienfactsheet.pdf>

3) Home Affordable Foreclosure Alternatives (HAFA):

- Program provides additional options to borrowers who want to avoid costly foreclosure.
- Also provides incentives to borrower (\$3,000) “cash for keys”, servicer (\$1,500) and investor (\$2,000), in connection with a short sale or a deed-in-lieu of foreclosure (DIL).
- Lender must forfeit the ability to pursue a deficiency judgment against the borrower.
- Servicers must consider possible HAMP eligible borrowers for HAFA. A list of servicers participating in HAMP is available at MakingHomeAffordable.gov.

PARTIAL CLAIM

If your mortgage is FHA insured, your lender might help you obtain a one-time interest-free loan from your mortgage guarantee to bring your loan current, and you will be responsible for repaying the “partial claim” when you pay off the mortgage or sell the property.

SPECIAL FOREBEARANCE

A formal written signed agreement with your lender under which your mortgage payments are reduced or suspended for an agreed upon period of time.

At the end of that period, you resume regular monthly payments, and bring the loan current through a lump sum payment or additional partial payments over a number of necessary months (unless the loan has been modified to make this unnecessary).

REPAYMENT PLAN

- Regular monthly payments plus additional amounts as agreed
- Payments are made until the loan is current

REFINANCING

May Help You Keep Your Home

- HARP: Home Affordable Refinance Program, see earlier section within this booklet to learn more about eligibility for the Home Affordable Refinance Program.
- Make sure you are financing into a stable loan product. Protect yourself and learn about different mortgages, their terms and risks. You may want to participate in a homebuyer education course by a HUD-approved housing counseling agency.
- Short re-finances. If you are upside down in your mortgage or have insufficient equity to re-finance out of your existing mortgage find out if your lender will reduce their loan balance enough to permit you to refinance.

REINSTATEMENT

This is a possibility if you can find the money to make up the entire past due amounts you owe, plus any fees or penalties, by an agreed upon date. You may have assets such as a second car that can be sold.

Note: Don't be tempted to take out a short-term loan or a second mortgage or line of credit to make the mortgage payments on your first mortgage, without first talking to your original lender or a housing counselor. A second mortgage may make the original lender less inclined to work with you on a solution.

Homeowners who are experiencing long-term delinquency may need to consider the following:

NOT KEEPING YOUR HOME



What Options Do You Have?

Acknowledgement: Adapted from HOPENOW Alliance

Pre-Foreclosure or Short Sale

- Sale of the property at fair market value
- Lender-approved pre-foreclosure sale, short payoff or short sale: selling the house, sometimes for less than what it may be worth, in order to satisfy the bulk of the mortgage. Lender agrees to accept the proceeds of the sale even though it is less than the full payoff amount in order to avoid foreclosure
- A qualified buyer may be permitted an assumption of your loan, even if your original loan documents state otherwise. You must communicate with your lender/servicer on their requirements for these options

Deed-In-Lieu of Foreclosure

- As a last resort you may be able to arrange a voluntary surrender of your property to your lender/servicer
- The lender must agree that the homeowner can voluntarily sign the deed over to the lender to avoid the foreclosure process
- The Homeowner is required to vacate the property at the time the documents are signed or other negotiated date

Cash for Keys

- Some lenders will offer “Cash for Keys” – whereby the lender may agree to provide the homeowner with cash to help them relocate.
- The homeowner agrees to maintain the property, until they relocate on a mutually agreed to date, and leaves the property “broom sweep clean”.
- Often the “cash for keys” is paid upon or after the homeowner exits the property.

Foreclosure

- **Chapter 13 bankruptcy:** If you and your lender cannot agree on a feasible repayment plan or other remedy, and you want to help save your home, you may want to review this remedy. Bankruptcy is a last-resort and a public record entry and it will damage your credit rating
- **Foreclosure:** A legal process in which the homeowner is evicted from the property and the lender/servicer arranges for the home to be sold to pay the loan of the defaulting borrower. Foreclosure rules vary according to your state’s laws. Foreclosure is public record entry and it will damage your credit rating

Resources

1-888-995-HOPE (4673)

www.995hope.org

Contact a HUD approved counseling agency, 1-800-569-4287 or

<http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm>

User friendly mortgage calculator to compare fixed rate mortgage with an adjustable rate mortgage and compare offers.

www.federalreserve.gov

Also, include a mortgage shopping worksheet to compare price and terms (that may be negotiable) to help you get the best financing.

One free report from each bureau per year: 1-877-322-8228 or

www.annualcreditreport.com

Free publications from credit.org to download:

www.credit.org

Select Resources, select Materials, or call 1-800-WisePlan.

PREVENT UNWANTED CREDIT OFFERS AND UNWANTED PHONE SOLICITATIONS:

- Sign up for the national Do Not Call list 1-888-382-1222
- Call 1-888-5 OPT OUT or online: optoutprescreen.com

Notes



More Resources

Visit credit.org's FIT Academy at www.credit.org/blog to find free online courses, expert advice, personal finance and budgeting calculators, and ebooks on a range of personal finance subjects:



Consumer Guide to Good Credit

Good credit is indeed crucial to financial health. Because credit reports frequently contain errors, we must all check our credit reports regularly and ensure that they are accurate and up to date. This guide will teach you how to do that.



The Power of Paycheck Planning

Learn time-tested strategies to budget, manage and prioritize your paycheck and learn how to take control of your finances by learning to budget your paycheck – before you spend it.



Preserving Homeownership/ Foreclosure Prevention

This guide will show you what options are available if your mortgage becomes delinquent, you are facing foreclosure, or you are facing a mortgage interest reset which you can no longer afford.



The Wise Use of Credit

You have a creditor need to establish credit – now what? Managing your credit responsibly helps build a solid foundation for your financial future.



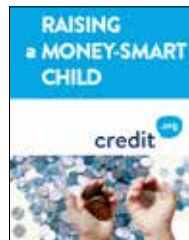
Road Map to Financial Freedom

This guide helps you take the first steps on your journey to financial freedom with Credit.org through the use of a Debt Management Plan to consolidate and pay back unsecured debt.



Identity Theft Prevention

Learn what to do to protect yourself from identity thieves, and what steps to take to restore your good standing if you are a victim of identity theft.



Raising a Money-Smart Child

A parent's guide to providing children with the necessary basic financial skills as early as possible. It's never too early to develop good saving and spending habits!



Predatory Lending

Don't be a victim! Protect your equity, know your rights, and avoid dishonest lenders.



Understanding Your Credit Reports and Scores

Understand what information is contained in your credit report and how it affects your life. Also learn how your credit scores are calculated.



Deals for Wheels

Get the information you'll need to make a sound decision about buying or leasing a car, and find out how to get a great deal on your next set of wheels.



Couples & Money

This seminar helps couples communicate about money matters, offers money and budget saving tips, and helps couples develop a spending plan for their future goals.



Surviving the Holidays

Learn to prepare for costs associated with the holidays, manage your holiday spending, and begin your New Year without holiday debt.



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