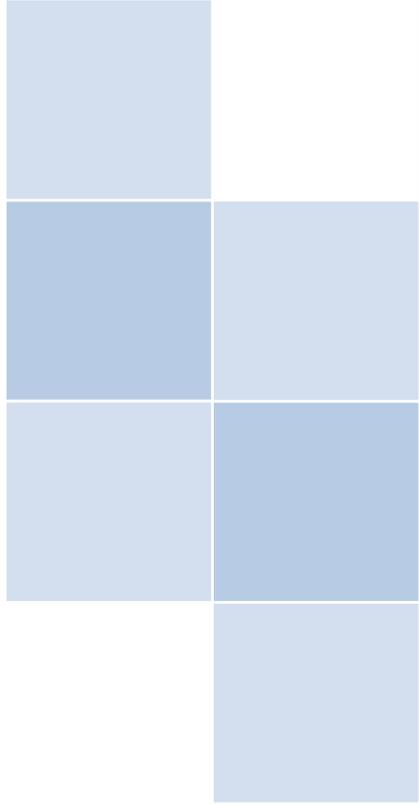


2009



# LOAN MODIFICATION

THE BASICS OF LOAN MODIFICATION



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## CHAPTER 1

### **Don't Confuse Loan Modification with Refinancing!**

THERE ARE A LOT OF DIFFERENT MORTGAGE TERMS BEING THROWN AROUND THESE DAYS, WITH LOAN MODIFICATION AND REFINANCING BECOMING TWO OF THE MOST POPULAR. IF YOU ARE LOOKING FOR A WAY TO SLASH YOUR MORTGAGE PAYMENTS, YOU MAY BE CONSIDERING ONE OF THESE TWO OPTIONS. BUT WAIT! IT'S IMPORTANT TO KNOW THE DIFFERENCES BETWEEN THEM TO AVOID GETTING INTO ANOTHER MORTGAGE MESS.

#### *Loan Modification vs. Refinancing*

IT CAN BE EASY TO CONFUSE A LOAN MODIFICATION AND A REFINANCE, ESPECIALLY SINCE BOTH ARE DESIGNED TO LOWER YOUR CURRENT MORTGAGE PAYMENT, BUT THERE ARE SOME IMPORTANT DIFFERENCES TO CONSIDER BEFORE APPLYING FOR EITHER:

1. REFINANCING A MORTGAGE REQUIRES YOU TO REAPPLY FOR A NEW LOAN – A MODIFICATION DOESN'T. MODIFYING YOUR CURRENT MORTGAGE IS SIMPLY A WAY TO CHANGE YOUR CURRENT MORTGAGE CONTRACT BY ASKING FOR

EITHER AN EXTENSION OF THE LOAN TERMS; AN INTEREST RATE REDUCTION; OR PRINCIPLE FORGIVENESS, TO HELP YOU REACH A PAYMENT AMOUNT YOU CAN LIVE WITH. SINCE MOST PEOPLE NEEDING TO LOWER THEIR PAYMENTS THESE DAYS DO NOT QUALIFY FOR A NEW LOAN, REFINANCING MAY NOT BE AN OPTION.

2. SINCE YOU ALREADY HOLD A MORTGAGE, LOAN MODIFICATION RULES ARE A LOT MORE LAX THAN REFINANCING A LOAN, MAKING IT MUCH EASIER TO NEGOTIATE NEW LOAN TERMS.
3. THERE IS A LOT LESS PAPERWORK INVOLVED IN A LOAN MODIFICATION THAN A REFINANCING. REMEMBER ALL OF THAT PAPERWORK YOU HAD TO FILL OUT WHEN YOU APPLIED FOR YOUR MORTGAGE? IF YOU REFINANCE YOU WILL HAVE TO RESUBMIT EVERYTHING! DEPENDING ON THE LENDER, A LOAN MODIFICATION MAY NOT EVEN ASK YOU FOR YOUR PAY STUBS!
4. REFINANCING A MORTGAGE THESE DAYS IS TOUGH! IT MAY SOUND CRAZY TO THINK IT'S EASIER TO GET A LOAN MODIFIED THAN TO GET A WHOLE NEW MORTGAGE, BUT IT IS. REFINANCING YOUR CURRENT MORTGAGE WILL REQUIRE EQUITY IN YOUR HOUSE; A STABLE INCOME; AND A VERY GOOD (IF NOT GREAT) CREDIT RATING.

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IF YOU ARE ONE OF THE MILLIONS OF HOMEOWNERS RIGHT NOW LOOKING FOR WAYS TO LOWER THEIR MONTHLY MORTGAGE PAYMENT DUE TO FINANCIAL STRESS, A LOAN MODIFICATION MAY BE THE BETTER OPTION.

## CHAPTER 2

### **What You Need to Know About Loan Modification**

HOW WOULD YOU LIKE TO SLASH YOUR MORTGAGE PAYMENTS BY 10% ... 20% OR EVEN 50%? THEN YOU MAY WANT TO CONSIDER ASKING YOUR LENDER FOR A LOAN MODIFICATION. OF COURSE, MODIFYING AN EXISTING MORTGAGE ISN'T FOR EVERYONE – IT DOES SOME WITH SOME SERIOUS CONSEQUENCES. BUT, IF YOU ARE ONE OF THE MILLIONS OF AMERICAN FAMILIES THESE DAYS UNABLE TO MAKE THOSE MONTHLY PAYMENTS, IT IS DEFINITELY AN OPTION TO CONSIDER.

MAYBE YOU'VE HEARD THE TERM LOAN MODIFICATION, BUT YOU AREN'T EXACTLY SURE WHAT IT ENTAILS. IN ITS MOST BASIC FORM, MORTGAGE MODIFICATION IS A PERMANENT CHANGE TO YOUR LOAN AGREEMENT DESIGNED TO BRING YOUR PAYMENTS DOWN DUE TO SOME SORT OF LONG-TERM FINANCIAL CRISIS.

THERE ARE SEVERAL WAYS IN WHICH A MORTGAGE CAN BE ALTERED IN A MODIFICATION:

1. BY EXTENDING THE LIFE OF THE LOAN. LET'S SAY THAT YOU ARE FIVE YEARS INTO A 25-YEAR MORTGAGE AND YOU SUDDENLY BECOME DISABLED. MAYBE YOU HAVE ENOUGH INCOME TO KEEP YOUR HOUSE AS LONG AS YOU CAN LOWER YOUR MONTHLY PAYMENTS. YOUR LENDER MAY BE AGREEABLE TO EXTENDING THAT 25 YEAR LOAN TO A 40-YEAR TERM IN ORDER TO GET THOSE PAYMENTS LOW ENOUGH FOR YOU TO AFFORD.

2. BY LOWERING YOUR INTEREST RATE. ADJUSTABLE SUBPRIME RATE LOANS HAVE GOTTEN A LOT OF PEOPLE INTO TROUBLE IN RECENT YEARS. AS INTEREST RATES SKYROCKETED, SO DID THEIR PAYMENTS, LEAVING MANY UNABLE TO KEEP UP. MORE AND MORE LENDERS ARE NOW REALIZING THE BENEFIT OF OFFERING THESE HOMEOWNERS A LOWER PERMANENT RATE IN ORDER TO KEEP THEM IN THEIR HOMES AND UP-TO-DATE WITH THEIR PAYMENTS.

3. FORGIVING LATE PAYMENTS, PENALTIES AND INTEREST. IF YOU ARE ONE OF THOSE HOMEOWNERS WHO FELL BEHIND ON YOUR MORTGAGE PAYMENTS DUE TO A JOB LOSS, ONLY TO DISCOVER THAT THE PENALTIES, INTEREST AND LATE FEES WERE ADDING UP FASTER THAN YOU COULD PAY THEM ONCE YOU GOT BACK ON

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YOUR FINANCIAL FEET, YOU MAY QUALIFY FOR FORGIVENESS OF THESE ADD-ON FEES THROUGH A LOAN MODIFICATION.

4. A PARTIAL LOAN FORGIVENESS. IT'S NOT VERY COMMON, BUT SOMETIMES LENDERS WILL FORGIVE A PORTION OF A BORROWER'S LOAN IF THEY BELIEVE THE HOMEOWNER CAN KEEP THEIR ACCOUNT CURRENT IN ORDER TO AVOID FORECLOSURE.

OF COURSE, KNOWING THE DIFFERENT TYPES OF LOAN MODIFICATIONS AVAILABLE IS ONLY THE FIRST STEP IN THE PROCESS. HERE ARE A FEW OTHER THINGS YOU MUST CONSIDER WHEN SEEKING THIS TYPE OF MORTGAGE HELP:

- WHETHER OR NOT YOUR LOAN QUALIFIES FOR MODIFICATION. IN THE PAST ONLY LOANS HELD BY THE ORIGINAL MORTGAGE LENDER QUALIFIED FOR MODIFICATION. THAT RULE IS SLOWLY CHANGING, HOWEVER, MAKING THIS OPTION AVAILABLE TO MORE BORROWERS THAN EVER BEFORE. STILL, THERE ARE STRICT QUALIFICATIONS FOR LOAN MODIFICATION, SO CHECK WITH YOUR LENDER TO SEE IF YOU EVEN QUALIFY.
- THERE ARE NO LAWS REQUIRING A LENDER TO OFFER MODIFICATION ASSISTANCE, NO MATTER WHAT THE CIRCUMSTANCES. APPROVAL IS UNDER THE SOLE DISCRETION OF THE LENDER. NO ONE CAN MAKE THEM DO IT.

- MODIFICATIONS ARE EASIER TO GET THAN REFINANCING OR NEW LOANS. DEPENDING ON THE LENDER, THE PROCESS CAN BE MUCH EASIER, INVOLVING FAR LESS PAPERWORK AND FINANCIAL INFORMATION. SOME DON'T EVEN REQUIRE THAT STANDARD INCOME/DEBT RATIOS BE MET AS LONG AS YOU CAN PROVE THAT YOU CAN HANDLE THE NEW PAYMENT.
- LOAN MODIFICATIONS ARE NOT NEW LOANS! THEY ARE A CHANGE TO AN EXISTING LOAN.
- ALTHOUGH THERE ARE SOME SMALL FEES REQUIRED FOR A MODIFICATION, NO STANDARD CLOSING COSTS ASSOCIATED WITH MOST MORTGAGES APPLY.

NOW THAT YOU BETTER UNDERSTAND WHAT LOAN MODIFICATIONS ARE ALL ABOUT, YOU WILL BE BETTER PREPARED TO NEGOTIATE ONE FOR YOURSELF.

## CHAPTER 3

### **Tough Questions You Need To Ask Yourself Before Requesting a Loan Modification on Your Mortgage**

LOAN MODIFICATION IS A REAL BUZZWORD THESE DAYS, WITH MILLIONS OF HOMEOWNERS LOOKING INTO THIS VIABLE OPTION FOR SLASHING THEIR CURRENT

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MONTHLY HOUSE PAYMENTS. BUT, NOT EVERY MORTGAGE IS ELIGIBLE FOR MODIFICATION, AND SOME PEOPLE MAY ACTUALLY BE HURT BY IT.

TO FIGURE OUT WHETHER A MORTGAGE MODIFICATION IS RIGHT FOR YOU, BEGIN BY ASKING YOURSELF THESE IMPORTANT QUESTIONS:

*Does my loan even qualify?*

UNLESS YOUR MORTGAGE IS STILL HELD BY ITS ORIGINAL LENDER (AND MOST AREN'T), THE ODDS ARE YOU DON'T EVEN QUALIFY FOR A TRADITIONAL MODIFICATION. UNTIL THIS YEAR, ANY MORTGAGE THAT HAD BEEN SOLD TO A NEW LOAN PROVIDER COULDN'T EVEN REQUEST A MODIFICATION OF TERMS. ALTHOUGH THIS RULE HAS BEEN EASED UP A BIT DUE TO THE CURRENT FINANCIAL CRISIS, THERE IS STILL NO GUARANTEE THAT YOU CAN EVEN APPLY THROUGH A SECONDARY LENDER.

THE BEST WAY TO SEE IF YOUR LOAN QUALIFIES FOR MODIFICATION IS TO ASK YOUR LENDER.

*Am I behind in my mortgage payments?*

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