

## **Facing Foreclosure? Loan Modification and New Legislation Could Be the Answer**

The pathways to foreclosure are varied and numerous, especially in today's tougher economy. Increasing mortgage payments or mounting credit card debt, a sudden loss in income or employment, a serious illness, or a divorce or separation are all unexpected changes that can quickly lead to delinquency and even foreclosure.

And whether or not you personally are having trouble with your mortgage, it doesn't matter, because foreclosures affect everyone. After all, a single foreclosure in your neighborhood will often lower the value of every home – including yours – even if you've never missed a single payment.

The good news is that there is hope for you or anyone you know who might be on one of these unfortunate paths. This month *YOU Magazine* will take a closer look at how foreclosure can now be avoided thanks to loan modifications and new legislation that won't result in the traumatic loss of your home.

### **Lenders Really Don't Want to Foreclose**

It's important to understand that lenders are not in the business of owning real estate, and would much rather help a struggling homeowner than to take possession of their home.

The numbers speak for themselves.

The average loss incurred by a mortgage company on a foreclosure is approximately 40%. In comparison, the average loss on a modification of the mortgage is approximately 20%.

With this in mind, let's say a \$200,000 mortgage is facing foreclosure. A mortgage lender can expect a loss in the area of \$80,000. Compare this to just the \$40,000 loss it can expect by working something out with the homeowner. Multiply these numbers by hundreds or even thousands of delinquent loans, and it becomes clear why working with homeowners is in a mortgage lender's best interest – especially in today's challenging market where foreclosures are reaching record levels in some areas.

RealtyTrac®, a company that tracks foreclosure statistics, recently reported that bank-owned inventory hit the three-quarter million mark in July. Bank repossessions have increased 184% since last year at this time as default and auction notices continue to climb.

In the second quarter of this year, 1 in every 171 households nationally reportedly received a foreclosure filing. While the majority of the fallout is limited to states like Nevada, California, and Florida, states from the Midwest and Sun Belt have not been exempt. In fact, add in foreclosures from states like Michigan, Ohio, and Arizona, and the number of homes in foreclosure increases to as many as 1 in every 43 homes.

With staggering numbers like these, it's easy to understand why mortgage lenders are so willing to work with homeowners right now to save their homes through loan modifications.

### **Why Should a Homeowner Try to Modify?**

Just because someone missed his or her last three mortgage payments, triggering the foreclosure process, doesn't mean that it is necessarily time to start packing up and moving out. As we mentioned earlier, the reasons borrowers may miss a few payments are valid and often understandable. More importantly, not all of the unfortunate scenarios that lead to missed payments are permanent or irreversible. People can and do get back on track very quickly – and lenders know this and, now more than ever, are willing to help these homeowners avoid foreclosure.

According to [Hope Now](#), a non-profit company helping distressed homeowners, mortgage servicing companies have successfully negotiated 522,000 workouts in the second quarter of 2008. In the month of June alone, approximately 76,000 of 105,000 homeowners received loan modifications. With so much on the line, homeowners in financial distress need to be proactive and make every attempt to help themselves.

Remember, with a foreclosure on your record, under most circumstances you will not be able to buy another home with a conforming mortgage for five years. Not to mention the lost opportunities of being a homeowner, which include increased wealth through home price appreciation and decreased income tax liability from deducting mortgage interest and property taxes.

If you or someone you know is facing financial challenges and can't pay the mortgage right now, don't just bury your head in the sand. The first thing you need to do is reach out to your mortgage company right away.

### **What Should You Do?**

For a homeowner to be considered for a loan modification, the lender will want to know exactly where you stand financially and what you can afford.

The first thing to do is to find the courage to pick up the phone and call someone for help. Picking up the phone may not be easy, but if you want to avoid the financial ramifications of a foreclosure, you have to do it.

There are three calls you should make right away. The first call could be to the existing servicing company for the mortgage. The second option could be to a non-profit company like Hope Now. The third would be to contact a company that negotiates loan modifications. Either way, for direction on the best path to take, contacting an experienced mortgage professional is also a good idea.

Once you have made contact, let the company know that you would like to stay in the home. Assure them that you are committed to honoring your mortgage, but that you are in need of a little assistance right now to get back on your feet.

To enter into a modification agreement, the company will need to know, in writing, exactly what caused your sudden financial distress – so be prepared to tell your story in writing. This is also known as a "hardship letter," which will clearly explain the circumstances behind your missed payments and justify why you're in a good position to continue to make your modified payments in the future.

Be advised, investors or property flippers who were simply caught in a falling real estate market are not usually considered hardship cases. These homeowners may not find the same willingness to help that lenders will offer someone whose home in question is his or her primary residence. That means your chances are much better if you live in the home that you're trying to save.

Next, you will need to provide detailed financial information to help prove your case, so be prepared once you make that call to provide this information. Documents may include pay stubs, income tax returns, W-2s, liquid assets (bank and brokerage accounts), and current expenses (food, utilities, insurance, and other common expenses).

With this information, a lender may be willing to offer assistance in the form of a mortgage modification. This could include a reduction of your interest rate, a reduction of your principal, or even an extension of your existing mortgage. A combination of these options could also be in the mix, depending on your situation. Remember, the goal of a loan modification is to keep the homeowner in the home, so be open and up front and willing to help this process along in any way that you can.

### **Another Option for Struggling Homeowners**

New legislation was put in place recently that could also assist homeowners whose mortgage balance is higher than the current value of the home – also known as being "upside down" or "under water." The bill is called the Homeowner Recovery Act of 2008, and it goes into effect October 1, 2008.

This law has provisions that will allow qualified homeowners to refinance their mortgage, with the mortgage company's approval, at 90% of the newly appraised value. There is one catch, though. To take advantage, the homeowner will have to share in future appreciation with the government. While some may be reluctant to do so, this could be an outstanding option for many homeowners who want to avoid foreclosure and keep their homes.

Details of exactly how this will be accomplished by the government, however, are still a little unclear at this time. But if you're under water with your mortgage, don't wait. You don't have to lose your home. There are many options available to struggling homeowners, but you have to be proactive before it's too late. Call the professional who supplied you with your copy of *YOU Magazine* and get the answers you need today.