

Homeowners' Smart Guide to Loan Modification

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The Obama administration's Making Home Affordable program was looking like another government failure, but its numbers have improved sharply, with 650,000 borrowers getting trial loan modifications and 375,000 eligible to convert to permanent modifications by the end of the year. And today the administration is stepping up pressure on banks to complete even more loan modifications. The Treasury Department has announced plans to send "SWAT teams" into the largest mortgaging servicing companies to work hand in hand with mortgage executives to boost their success rates. Banks will be required to submit plans on how they decide whether a loan will be permanently modified, and the department will publish a list of the mortgage companies that are lagging behind in making permanent modifications.

Still, many borrowers complain it's hard to get a permanent loan modification, and others point out this program doesn't really help unemployed homeowners.

Record numbers need help

Today about 7.5 million U.S. households are behind on their mortgage payments, and one in four borrowers are underwater on their mortgage, owing more on their mortgage than their home is worth.

Borrowers don't know where to turn

They don't understand the government help lines and services and consumer advocates to turn to, nor do they know who to call at the bank. If they do start the modification process, many don't complete it. Sixty percent of the borrowers who have qualified to have their loan modifications made permanent under the Making Home Affordable program have submitted incomplete paperwork or none at all.

Banks are overwhelmed

Banks are understaffed in their mitigation departments and underinformed about new government programs designed to help borrowers. Paperwork gets lost, fax numbers are changed abruptly and borrowers still get lost in phone-tree hell.

Net present value

Making Home Affordable includes a net present value (NPV) test to determine if a mortgage will be modified. The test compares the cash flow the loan is likely to generate if it's modified with the cash flow expected if it isn't. If the modified loan is expected to generate more, the servicer is to restructure the loan. While it makes good sense that the loans that get restructured should be in the investor's best economic interest, since that helps ensure broad participation, some argue that the complex computerized NPV formula is murky and often uses unrealistic appraisal figures, letting mortgage companies off the hook for loans they should be restructuring.

Servicers benefit from delinquency

Loan servicers are the mortgage companies that collect payments from homeowners, they do not own the loans. They collect fees from the investors who do own the loans, and their fees often

increase the longer a borrower remains delinquent. Some lawyers argue that mortgage companies are using the short-term trial modifications as a stall tactic to get a few more dollars from borrowers who otherwise would make no payments.

New initiatives don't address the problem

The high rate of unemployment is a major factor in current foreclosure rates, and under Making Home Affordable unemployed borrowers can receive a loan modification only if they can prove they're eligible for at least nine months of unemployment benefits. In reality, most borrowers getting unemployment benefits are unlikely to qualify.

Making Home Affordable

To find out if you qualify for a loan modification or refinancing under the government's current program, go online to makinghomeaffordable.gov. You can also find useful forms that will help you compile the information you need to send to your lender.

Decide what you can afford

Figure out what you can realistically afford to pay each month. Analyze your income, debts and assets. Determine what percentage of your gross income is currently going toward housing costs and what you could really afford. Put your plan on paper so you can present it to the bank.

Explain to the bank why a modification is in their best interest

Banks are not obligated to modify loans, so your job is to convince them that it's in their best interest to work with you to keep your home. Illness, untimely death and job loss are the reasons banks will most likely grant a modification.

Put your request in writing

When you have your plan, write a one-page letter explaining why your case is compelling. Include information about any extraordinary hardships like illness or a job or income loss, and document your financials. When it comes time to mail the letter, send it by certified mail with return receipt requested.

Call your lender

Start with the loan servicer, typically the 800 number on your monthly bill. Speak only with someone who has the authority to change the terms of your loan, usually an officer in the loan mitigation department. Write down the name of the person you're speaking with as well as the date and time. Move up the chain of command until you're in contact with someone who has the authority and willingness to work with you. After your discussion, mail your letter and back up materials to that person's attention via certified mail, return receipt requested.

Follow up

Loan modifications can take as long as nine months. After you've started the process and mailed in your information, continue to follow up with calls, e-mails and/or faxes as needed. Action and persistence are two keys to getting the help you need.