

**6 STEPS TO**  
**COMPLETING**  
**YOUR LOAN**  
**MODIFICATION**  
**YOURSELF**

You hear it in the news almost every day, more and more hard working Americans are falling behind on their mortgage payments. Many real estate markets across the country have experienced tremendous price drops and the flow of credit has halted to a dribble leaving homeowners the inability to either sell or refinance their mortgages to avoid foreclosure. The banking industry, government and homeowners have been demanding foreclosure alternatives to stabilize the real estate markets keep as many families in their homes as possible. A loan modification is one type of foreclosure alternative.

A loan modification can come in a number of forms. Basically what a loan modification does is it temporarily or in some cases permanently changes the repayment terms of your home mortgage. Some examples of a loan modification are to convert your adjustable rate mortgage to a fixed rate mortgage, extend the term of your loan from 30 years to 40 years, reduce the interest rate (permanently or temporarily), finance past due mortgage payments to reduce the amount of out of pocket money necessary to bring the mortgage current, and deferring some or all of the principal for a period of time.

As the foreclosure crisis grew a business opportunity emerged, loan modification companies. They are sprouting up everywhere. Some are legitimate, but most are nothing more than con artists that take your money in exchange for an empty promise. If you have fallen behind on your mortgage payments, you may have received mail, telephone, or email solicitations that a third party company will for a fee negotiate a loan modification for you and save your home from foreclosure.

Here is what the attorneys and the loan modification companies DON'T tell you, it can be done for FREE. You can talk to your lender yourself to discuss your options for a loan modification and the majority of lenders will NOT charge a fee to complete a loan modification. I know what you're saying, I am afraid to speak to my lender or I don't know how the loan modification process works. Don't worry, this guide will give you a step by step direction on how to directly apply for your own loan modification saving yourself thousands of dollars and possibly your home. Follow along these 6 steps to achieve a successful loan modification application. The six steps are mindset, document gathering, what to expect, contacting your lender, applying for the loan modification either by phone, internet, or US mail, loan modification approval, complete the final paperwork.

## **Step 1 – Mind Set**

The biggest issue almost everyone has is a feeling of embarrassment or failure. Very few people take on debt fully expecting NEVER to pay it back. The overwhelming majority of us have a core belief if we borrow, we owe. If we owe we pay. Because this core belief has been reinforced practically from birth it is very difficult to overcome the thought we won't pay our bills and if ultimately we cannot pay our bills, these overwhelming feelings of embarrassment and failure appear. As a result many people get paralyzed right here stick their head in the sand and do nothing. This is absolutely the worst thing you can do. I promise you if you can get through this step the rest of the task at least emotionally is much easier.

With that said let's acknowledge a few things to get you in the right mindset. 1) You are NOT the only one with this problem. There are other people on the same boat as you. 2) It is NOT personal. To your lender is all about business. You are not being judged. They may know your name, payment history, and where you live, but the chances your mortgage company is going to meet with you face to face are below nil. They are there to determine if there is a more viable option other than foreclosure. 3) Most people fall behind on their mortgage because of life events such as job loss, reduced wages, divorce, extended illness or death of a bread winner, etc. 4) Be honest with your lender and yourself so a true affordable long term solution can be explored.

The quicker you make contact with your lender to explore foreclosure alternatives, the more options you have available to you. If the process drags on too far you will lose some options that may have otherwise helped you, but are no longer available.

## **Step 2- Gather Documents**

In order for your lender to determine what foreclosure alternative options are available you will need to provide documentation. Both you and your specific lender may have additional requirements for certain documentation; the list below is at least the minimum required from all lenders. You will need to gather the following documents:

1. Any correspondence your lender has sent you regarding the delinquency status of your file. – Look for a specific contact name, department or telephone number.
2. Most recent mortgage statement
3. Pay stubs covering the last 30 days of employment from all persons occupying the property. If you are self employed or have a side business, also create a year to date profit and loss statement for the business.
4. Last two years complete personal tax returns (all schedules)
5. All W-2 forms for the last two years.
6. Bank statements (all pages from all accounts (checking, savings, money market, etc.)) covering the last two (2) months.
7. Grab all of your monthly bills, credit cards, auto loans, utility bills, etc.
8. Draft a Hardship letter. – This letter is a detailed explanation of what event caused you to fall behind on the mortgage. Be specific. You will also need to specify the status of the hardship (i.e. I lost my job and was out of work for 6 months and I am now back to work.) For most modifications to be successful, the event that caused you to fall behind in your payments must be over. This was the historical standard; however recently, it has been more case by case because the foreclosure problem is so prevalent at this point in time.

## **Step 3 What to Expect**

In the past loan modifications have been very cut and dry; however in this current environment, government and industry has mandated some of the most liberal loan modification solutions than ever before. With that said, not every loan will be modified. Many homeowners after all the efforts to work something out with their lender will not be able to save their home. While the number of successful loan modifications is up in recent months, there are still people today that have tried everything and still lost their home. A successful loan modification is dependent on verifiable income to support the new proposed monthly mortgage payment plus taxes, insurance, and association dues along with other financial obligations (car payments, credit cards, etc). If there is no stable income to speak of a loan modification is not going to happen.

What can I expect from a loan modification? Your mortgage terms can be modified a number of ways or a combination of a number of ways. As mentioned earlier, you could see your interest rate reduced, you could see the loan term (time to pay back the loan ) extended from 30 years to 40 years, or you could see a combination where they extend the repayment period to 40 years AND reduce the interest rate. Some will simply take your payment arrearages and finance them back into your mortgage, which would bring you current on your mortgage without laying out any cash. These are just a couple of examples.

What terms can be modified will be based on a number of factors such as the lender's criteria, if mortgage insurance exists on the file, if there is more than one open mortgage on the property, if it is a government insured or guaranteed loan such as FHA or VA. Based on the combination of your scenario and your lender's requirements will play a large part in what types of modifications are available to you. For example if a lender is forbidden to offer a 40 year term, then a 40 year term will NOT be part of the solution.

It can take months for your loan modification to be finalized. The current average is about 60 days from start to finish. Always keep calling your lender for a status at least on a weekly basis. Some loan modification loan programs will require you to make the proposed monthly payments for at least 3 months. This is called a trial streamlined modification. This is usually offered if the loan is owned by

Fannie Mae or Freddie Mac and is a requirement of the loan program. When you speak to your lender, they can tell you if the loan is owned by Fannie Mae, Freddie Mac, or another party.

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## **Step 4 Contact Your Lender**

OK now you have gotten in the right mind set, collected your paperwork and have a loose understanding of what to expect, it is now time to contact your lender. Your lender will probably have a variety of different telephone numbers. The best place to start is with the correspondence you received from your lender when you fell behind on your mortgage payments. This letter usually gives you a department that will be called, loss mitigation, home retention, homeowner assistance, etc. There are a number of other names it could be called, but these are the most common. If you do not have any specific phone numbers for one of these departments, then look at your mortgage loan statement and look for the customer service phone number. Call the customer service number and you will either have an automated attendant provide you with the loss mitigation department as a choice, or when you get a live person on the phone, ask for the loss mitigation or home owner retention department. If the person on the other line has no idea what you are talking about tell them you are looking for assistance on a loan modification then they will transfer you to the correct department. Before they transfer you, ask for the telephone number to that department so you can call them directly next time. Once you are speaking to someone in loss mitigation / home retention, give them your loan number. They will have you verify your identity by asking questions only you should know. Once your identity has been established engage in the conversation you wish to pursue a loan modification. Ask them if this can be done over the phone or if they need to send you a hardship package. A hardship package is essentially a paper application that is mailed to you to complete and it will also include a checklist of the documents required to apply for the loan modification. The documents required are the ones we covered in Step 2 Gather Documents. The list documents given in step 2 are the most common. In any event only give them EXACTLY what they ask for. If they only want the most recent tax return, then give them only the most recent year.

If they can do the application over the phone (or they may direct you to a web site) you will need to verbally provide information found on your documentation from step 2. If your lender goes this route you may get a preliminary answer on that call or they will put you in the system and you will need to continually follow up with them as to status. In any event always ask the persons full name and direct contact number because as you will soon learn you could be on hold

for quite some time and dialing direct in the future will save you a lot of time. Keep a log of time, date, who you spoke to, and the progress discussed on the call. Files get lost and your file has a good chance of being re-assigned to another counselor. Don't take it personally. The counselors have a mammoth case load and the turn over rate is extremely high.

If your lender will not begin the loan modification process over the phone or online, tell them to mail you the hardship package. You will receive the hardship package in 2 – 14 days after requesting. The hardship package will contain specific instructions and contain a checklist of items you MUST provide in order to be considered for a loan modification. Follow the directions very carefully and pay attention to deadlines.

After you complete the hardship package including the documents you need to send, make a photocopy of EVERYTHING including their paper work because if your package gets lost you can simply make another copy and resubmit. If your lender includes a return envelope such as a fed ex package use that envelope. Make a note of the tracking number for your records. If the lender did not send you a return envelope that can be tracked, do yourself a favor and send your package in using UPS or FedEx so you can track your package.

Some lenders will have you fax everything in. If you have to fax, print a confirmation page for your records.

Regardless of how your loan modification application is taken, you MUST call your lender at least weekly for a status because although you have made application for a loan modification all collection and foreclosure efforts will continue until the loan modification is approved and finalized. Stay on top of your lender.



## **Step 5 – Approval of Loan Modification**

If you submitted all of the required paperwork and meet your lender's requirements for a loan modification, then your lender will provide you with an approved modification plan which they are authorized to issue. Often times the approval is non-negotiable; meaning whatever you got offered for revised (modified terms) typically is all they can do at this time. It is important to note that if you accept the loan modification you are not precluded from applying for a new program in the future.

For example, your lender may only be able to roll in or finance the past due payments to bring the loan current and extend the loan to a 40 year repayment period. You accept the loan modification and begin making mortgage payments based on the new terms. Six months later the government unveils a new loan modification program where your interest rate can be reduced to 3% and your lender participates in that new program. You can go back to your lender a second time and apply for the new loan modification program. Of course you will be required to meet the requirements set forth by the program, but if you qualify, you can modify your terms again.

Once your loan modification is approved, you will be sent legal documents explaining the terms of the loan modification. The loan modification approval will have a deadline. If the loan modification documents are not executed or are incomplete by the deadline, the modification is null and void. It is very important you review the documents as soon as possible. If you don't understand the documents, you should consult an attorney ASAP.

## **Step 6 Finalize the Approval and Begin Making Payments as setforth in Your Modification Agreement.**

Again follow the instructions that come with the final loan modification documents. Most of the time it is just a notarized signature and return by the due date, but each case is different. It would be a shame to lose all of this work over a technicality or an oversight.

Congratulations, you have successfully modified your mortgage. Make your payments on time and manage the rest of your credit in a timely manner and your credit will improve once again giving you access to credit whether it be for a mortgage, car, credit card, job, etc. It won't happen overnight, but with each month that passes, you credit score will continue to improve.

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## **Frequently Asked Questions**

**Q) If I can't or don't want to attempt a loan modification on my own, what is my best alternative?**

A) Call 888-995-HOPE or go to [www.hopenow.com](http://www.hopenow.com) The HOPE Alliance is comprised of HUD Approved counselors and lender representatives who will work with you. Most of the time there is no charge, but some of the HUD counselors charge a small fee, usually \$50 - \$100.

**Q) If I decide to use a loan modification company how do I know if they are legitimate?**

A) Your best indicator is if they were referred to you by someone you know and trust that has had a pleasant successful experience with them. One of the warning signs from the scammers is they collect an up front fee. The fee could be anywhere from \$100.00 to as high as \$7,500.00. The con artists have made such an impact, that just about every state in the country has passed some form of law regulating foreclosure rescue or loan modification services. While each state has there own version, just about every state PROHIBITS paying any upfront or advance fees. Just recently, US Treasury Secretary, Tim Geitner announced at a press conference they are aware of the loan modification scams and the Federal Government is cracking down on them just as many of the State Attorney Generals are as well. Best advice is do it yourself or use the HOPE Alliance.

**Q) Should I hire an attorney?**

A) That is a decision for you to make; however, if you have been served with a foreclosure filing, you should consult with an attorney as soon as possible. If you cannot afford an attorney, the Legal Aid in your area can offer some limited services often for free and other representation for reduced fees. You may also want to hire an attorney to review the loan modification documents you receive from your lender.

**Q) If I cannot get a loan modification and I cannot afford to stay in the property, what is my next best strategy for my future?**

A) Sell the property ASAP. If you have equity in your property, it is in your interest to sell the property and put any equity you have in your pocket to start again when your personal situation is better. If you owe more on the property than the property is worth, you can still sell the property. This is called a short sale. A short sale is essentially a settlement where the lender accepts less than what is owed on the property. A short sale gives you the opportunity to settle the account once and for all and not have to worry about a deficiency judgment in the future. A short sale is not an automatic settlement, but most lenders especially if the hardship is job loss, death, or divorce, will consider the account settled. A short sale must be approved by the lender, so pay attention to the details of the short sale approval.

## **DISCLAIMER**

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