
Modification Opportunities for Those At Risk of Foreclosure

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The Obama Administration unveiled the final details of its "Making Home Affordable Program," which is designed to help up to 9 million American families refinance or modify their loans to a payment that is affordable now and into the future.

One of the initiatives in this program is aimed at helping struggling homeowners "modify" their loans to avoid foreclosure. Here are some common Questions and Answers about the Modification Initiative in the program.

MODIFICATION INITIATIVE

Who is eligible?

To apply for a Home Affordable Modification, you must:

- Own and currently occupy a one- to four-unit home.
- Have an unpaid principal balance that is equal to or less than \$729,750 (for one unit properties).
- Have a loan that was originated before January 1, 2009.
- Have a mortgage payment (including taxes, insurance, and home owners association dues) that is more than 31% of your gross (pre-tax) monthly income.
- And, have a mortgage payment that is no longer affordable, perhaps because of a significant change in income or expenses.

If you answered YES to all of these questions, you may be eligible for the Modification Initiative.

Am I eligible if I missed some mortgage payments?

Yes. If you missed two or more mortgage payments and answered "yes" to the Modification Initiative requirements above, you may be eligible for a loan modification.

Do I need to be behind on my mortgage payments to be eligible for a Home Affordable Modification?

No. Responsible borrowers who are struggling to remain current on their mortgage payments are eligible if they are at risk of imminent default. Examples of being "at risk" include facing a significant increase in your mortgage payment or a reduction in your income. Contact me to discuss your specific situation.

I have a second mortgage. Am I still eligible?

Yes, but only the first mortgage is eligible for a modification.

I have an FHA loan. Can it be modified under this program? Are all loans eligible?

Most conventional loans including prime, subprime, and adjustable loans; loans owned by Fannie Mae and Freddie Mac as well as private lenders; and loans in mortgage backed securities are eligible for a modification. Contact me to discuss your specific situation.

I have a mortgage on a duplex. I live in one unit and rent the other. Will I still be eligible?

Yes. Mortgages on two, three and four unit properties are eligible as long as you live in one unit as your primary residence.

What does the Modification Initiative do?

If you are eligible for this plan and are approved, you will be put on a trial modification for three months at a new interest rate and payment.

If you successfully make the payments and are current at the end of the three-month trial period, your servicer will execute a permanent modification agreement that will lower your interest rate to a fixed rate for five years.

What happens after five years?

Beginning in year six, the rate may increase no more than one percentage point per year until it reaches the "rate cap" in your modification agreement, which is basically the market interest rate on the date the modification is finalized.

That means your rate can never be higher than the market rate on the day your loan is modified. This is great news because rates are currently at historic lows... and you can lock in now.

How low can my interest rate go?

Treasury is providing incentives to your investor to write the interest down as low as 2%, if necessary to get to a payment that you can afford based on your income.

What happens if that is not enough to get to an affordable payment?

If a 2% interest rate is not enough to bring your payment down to 31% of your gross monthly income, your servicer can extend your payment term--for example, give you a 40-year loan rather than a 30-year.

If that is still not sufficient your servicer will defer repayment on a portion of the amount you owe until a later time. This is called a principal forbearance. A portion of the debt could also be forgiven. This is optional on the part of the investor. There is no requirement for principal forgiveness.

Are there any other benefits to this program?

Yes. For every month you make a payment on time, Treasury will pay an incentive that reduces the principal balance on your loan. Over five years the total principal reduction could add up to \$5,000.

How much will a modification cost me?

There is no cost to borrowers for a Home Affordable Modification. You will not be asked for any money.

If there are costs associated with the modification--such as payment of back taxes--your servicer will add those costs on to the amount you owe. Your servicer will also forgive any late fees.

Is housing counseling required under this program?

Borrowers are strongly encouraged to contact a HUD-approved housing counselor to help them understand all of their financial options and to create a workable budget plan.

However, housing counseling is only required for borrowers whose total monthly debts are very high in relation to their incomes (55% of your gross monthly income). If you would like to speak to a housing counselor, call 1-888-995-HOPE (4673).

How do I apply for the Modification Initiative?

If you meet the general eligibility criteria for the program, you should gather the following information:

- Recent pay stubs to help determine your gross (before tax) household income.
- Your most recent income tax return.
- Information about your assets.
- Information about any second mortgage on your house.
- Account balances and minimum monthly payments due on all of your credit cards.
- Account balances and monthly payments on all other debts, such as student loans and car loans.
- A letter describing the circumstances that caused your income to be reduced or expenses to be increased (for example: job loss, divorce, illness, etc.).

Once you have this information, call your mortgage servicer and ask to be considered for a Home Affordable Modification. The number is on your monthly mortgage bill or coupon book.

My loan is scheduled for foreclosure soon. What should I do?

If your mortgage has been scheduled for foreclosure or if you have missed one or more mortgage payments, you should contact your servicer immediately.



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