

# **A Guide to Loan Modifications, Short Sales, Deed-In-Lieu of Foreclosure, and Reinstatements**

**Mortgage Trust Group, Inc.  
740 Main Street, Suite 103  
Waltham, MA 02451  
781-894-3900  
[www.mtgmortgages.com](http://www.mtgmortgages.com)**

**Licensed in MA, CT, NH, VT, ME and FL.**

Massachusetts Mortgage Lender and Mortgage Broker #MC2297 - New Hampshire Mortgage Banker #5928-MB  
Connecticut First Mortgage Lender and Mortgage Broker #10172 and Second Mortgage Lender and Mortgage Broker #14297  
Vermont Mortgage Lender #5313; Vermont Mortgage Broker #0379 MB - Maine Mortgage Lender #SLM5925; Florida Mortgage Lender #ML 0500759

**NORMAN ROSSKOTHEN**  
Branch Manager  
Office: 781-894-3900  
Fax: 781-894-3355  
Toll Free: 866-514-7777  
Email: norman@mtgmortgages.com  
www.mtgmortgages.com

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## **Loan Modifications and Short Sales**

With the current real estate market and the state of the mortgage industry, Loan Modification is the talk of the town. Yet, few understand what a Loan Modification is, who can qualify, or how to get it done.

If a homeowner has a hardship, is behind on their mortgage or will fall behind, they may qualify for a Loan Modification. A homeowner can negotiate a Loan Modification on their own with their Lender. The homeowner needs to be persistent, organized, realistic, and levelheaded to be successful. Loan Modification is time consuming and highly frustrating.

There are Loan Modification companies that negotiate for you. A homeowner needs to be careful, as some are professional and some are scammers. Be particularly wary of telemarketers, mailings, and companies on the internet making grand claims of reducing mortgage principal or drastically lowering mortgage payments. One has to be realistic with one's situation and what can be negotiated with a Lender.

Many homeowners seeking Loan Modifications also fell for the same scams from telemarketers or internet mortgage companies promising rates as low as 1% or lower mortgage payments that were only minimum versus full payments. Just as with mortgages, if it sounds too good to be true, it is.

We are now offering Loan Modification and Short Sale services due to the high volume of homeowners ineligible for a refinance and who we advise to contact their Lender for a Loan Modification or Short Sale. Although we offer free advice, there is a limited amount of time we can offer homeowners that were not our borrowers. Our clients followed our advice and have 30 year fixed mortgages and are generally in a solid position.

### **Understanding Loan Modifications:**

A Loan Modification is when there was a financial hardship and a change in one or more terms of a homeowner's mortgage results in a payment that the homeowner can afford.

A successful Loan Modification keeps the homeowner in their home for less of a loss than foreclosure would be for the Lender.

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In essence, the homeowner is being re-qualified for their current mortgage as if they are getting a new mortgage. Loan Modification is not refinancing, but re-writing the current mortgage to meet the homeowner's current financial situation.

There are also options for homeowners that do not want to stay in their homes or do not qualify for a Loan Modification. These include Short Sale (Short Payoff) and Deed-in-Lieu of Foreclosure.

The premise of Loan Modification or a Short Sale is that the loss from these actions will cost the Lender less than a foreclosure. Thus, one has to be realistic on what is possible.

The average foreclosure costs the Lender more than \$60,000 in lost payments, legal costs, holding costs, etc. Should the situation make economic sense, the Lender should agree to the Modification or Short Sale.

However, the Lender has more issues than just the economics in the decision. For example, if the Lender freely gave principal reductions to homeowners in default, all the Lender's borrowers would stop paying their mortgages to have their loans reduced.

Lenders are overwhelmed with borrowers in default, foreclosures, and requests for Loan Modifications or Short Sales. This and the continuously changing pressures of government regulations, incentives, and seizures of Lenders, have created a climate of chaos that the homeowner must successfully navigate to save their home and/or extract themselves from their property.

Loan Modification is a long process and can take 8 to 12 weeks.

### **Who Qualifies for a Loan Modification?**

A homeowner who is experiencing a hardship and has or will have difficulty paying their mortgage may request a Loan Modification.

The Lender weighs their options for reducing their loss, but needs to be sure the homeowner can afford the new payment. Otherwise, the Lender will not agree to a Loan Modification if the homeowner will still end up in foreclosure.

It is therefore important to document the homeowner's hardship, income and expenses to not only prove the difficulty with the current payments, but also the homeowner's ability to handle the modified payment.

Historically, the top reasons for foreclosure were: 1) Unemployment, 2) Health, 3) Divorce. Currently, the top reason for foreclosure is that the property value is inverse to the mortgage so the owners just walk away. Surprisingly, most homeowners never even try to contact their Lender.

Being upside down on a mortgage isn't a hardship. If the property increased in value, the Lender wouldn't get the profits and likewise isn't responsible for any losses. The homeowner was personally lent money. The property only served as collateral on the

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loan. Few people realize that the Lender has the right to take legal action against the homeowner to recover any losses.

Being upside down is a reason that the homeowner cannot refinance out of their mortgage versus a hardship.

Hardships are problems that have or will occur that cause financial difficulties and the homeowner is asking the Lender to share in those difficulties.

Hardships include:

- Unemployment
- Reduced Income
- Divorce
- Separation
- Death of a Spouse or Family member
- Medical Bills
- Too much Debt
- Payment Increase
- Business Failure
- Job Relocation
- Illness
- Damage to Property
- Military Service
- Incarceration

One has to look at the hardship and its impact on the homeowner's ability to make the current payment and any modified payment, to see if it makes sense.

For Example:

Borrower A gets laid off and goes from a \$100,000 to an \$80,000 a year job. During the period of unemployment, Borrower A fell behind on the mortgage payments. As Lenders do not take partial payments and money is tight, Borrower A needs relief to have the mortgage reinstated. As money is very tight with the new lower income, Borrower A also needs some relief to be able to afford the mortgage payment.

This is reasonable and should be possible. However, if Borrower A's new income was \$40,000, it would be unreasonable to expect the Lender to reduce the mortgage payments by 50% or more so that Borrower A can afford their house. It would be cheaper for the Lender to foreclose. Borrower A should look to do a Short Sale to get out of their property.

If Borrower B has a \$3,000 a month mortgage payment with an Adjustable Rate Mortgage (ARM) that has or will increase the payment to \$3,500, it would be reasonable if Borrower B can afford it to have the Loan Modified to keep the payment at \$3,000.

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However, if Borrower B has zero income as Borrower B's business failed, Borrower B cannot afford any mortgage payment and should look to do a Short Sale.

Borrower C is mad that their home that was purchased for \$300,000 is now only worth \$150,000 and wants the Lender to reduce the principal to \$150,000. First, principal reductions do happen, but are rare. Second, there is no reason for the Lender to drop the principal, nor is there a hardship.

What kind of a Modification is needed and what are its costs versus foreclosure is the bottom line to a decision. A payment modification of \$500 a month in the third year of a mortgage with 27 years left has a potential loss of \$162,000 over the remaining 27 years of the loan. How does that loss compare for the Lender versus the costs of foreclosure and the current resale value of the property?

### **The Types of Loan Modifications:**

There are many types of Modifications and what is available varies with the Lender and the type of loan program. The basic categories are:

**Loan Modification:** The alteration of the terms of a loan by changing the interest rate, amortization, principal, etc., to reduce the monthly payment.

**Short Sale:** Also called a Short Payoff, Pre-Foreclosure sale, or Compromise Sale, where the homeowner sells the house with a payoff less than the amount owed.

**Deed-In-Lieu of Foreclosure:** The homeowner cannot afford the property nor can they sell the property, and hands the deed to the Lender without foreclosure. In exchange for the deed the Lender agrees to waive all future deficiency judgment rights against the homeowner.

### **Do It Yourself Loan Modification:**

One must be honest with oneself and the situation. Loan Modifications are very difficult and require patience and persistence in dealing with a Lender. One cannot be emotional.

The homeowner will have to organize their finances, documents, and keep calling and calling their Lender.

### **Step 1 – Questions to Ask**

A homeowner needs to take a deep look at themselves, their income, expenses and the situation that caused the financial difficulty.

- What is my situation?
- Is the issue temporary or permanent?
- What can I afford to pay?
- Do I want to stay in the house?
- Is my request reasonable?
- Can I control my emotions in these dealings?

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- Can I be persistent in dealing with the Lender?

## **Step 2 – Organize Your Paperwork**

The homeowner needs to prove the issue that caused the financial difficulty and also their ability to make the future payments on any modification. Thus, they will need to organize all their documents and paperwork.

These include:

- Budget of income and expenses
- Paystubs
- Bank Statements
- Last Two Years Tax Returns
- All Bills
- All Supporting Documentation – Divorce, unemployment, etc.

## **Step 3 – Hardship Letter**

The homeowner will need to summarize their situation into a detailed Hardship Letter. The documents must support the information in the Hardship Letter.

## **Step 4 – Calling Your Lender**

The “Lender” most likely does not own the mortgage, but rather they are the “servicer” of the loan.

The homeowner needs to call and explain their situation and try to move up the ladder to the decision maker. The first contact will be in the debt resolution/consumer service department. Often these jobs have been outsourced overseas. These individuals can only read off a set script. They will tell you how much you owe and that you must pay or else.

Some Lenders do not do Loan Modification at all. However, these first level individuals will often say they do not do Loan Modifications when in fact the Lender does.

The homeowner must move up the ladder out of the debt resolution or collection department and into the loss mitigation department to a decision maker.

Without reaching a decision maker, they will never get approved for a Loan Modification.

The homeowner must keep detailed information on each call for their records.

- The date and time of the conversation.
- The name of the person they spoke to.
- Their direct telephone number and email address.
- A description of the conversation
- The follow up course of action

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## **Step 5 – Persistence**

The homeowner must keep calling and calling and calling until they reach the correct decision making individual.

Once this individual has been reached, the homeowner must keep in constant contact supplying them with the requested information and documents to have a successful result.

With the current situation, the Lenders are overwhelmed. Without continual contact pushing the homeowner's situation, they will be overlooked and their home will be foreclosed on.

### **How We Can Help with a Loan Modification or Short Sale:**

We are in the mortgage business.

We have been overwhelmed with homeowners requesting assistance. Although we are happy to offer some free advice, these homeowners are not our past customers. We looked after our clients' best interest and they took our advice and have 30 year fixed mortgages. They are for the most part in relatively good shape for this economy.

Despite all the tutoring we give to homeowners and real estate agents on how to do a Loan Modification or short sale, most aren't successful as they lack the knowledge.

We are now providing Loan Modification services using our knowledge of qualifying and packaging a homeowner, the same as we would a borrower purchasing a home, and working with experts in Loss Mitigation, to help homeowners and save our communities.

We will go over the homeowner's situation and documents to requalify them for their mortgage, similarly to how we qualify a borrower for a new loan. We will then prepare documents for the Loan Modification and build a case file.

We will then have the homeowner Pre-Approved for a Loan Modification. A Pre-Approval is a greenlight from a Loss Mitigation Negotiator that based on the situation, finances, property, Lender, and loan program, believes a Loan Modification should be successful. If the situation is very borderline, they will be turned down. If their Lender does not do Loan Modifications, they will be turned down.

Once the case has been Pre-Approved for a Loan Modification with our Loss Mitigation partners, the homeowner's case file will be sent to them.

After a five day rescission period, the Loss Mitigation Negotiator will call the homeowner to confirm the information in the file. Incorrect information can derail a successful Loan Modification. The Loss Mitigation Department of your Lender(s) will be contacted regarding the homeowner's case and request for a Loan Modification. It can take up to a week for this decision maker to get the homeowner's records from the Lender files.

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The homeowner will then be contacted with any and all changes in their case until a successful resolution is concluded. They can call at anytime for an up-date.

By combining our mortgage experience with the Loss Mitigation Negotiator's experience, the homeowner will have a much greater chance of success. As the Loss Mitigations Negotiators speak with the same decision makers day in and day out, the homeowner is skipped to the head of the line.

Every property saved is a family saved.

Every property saved is one less foreclosure bringing down the values in our communities.

For more information on our Loan Modification, Short Sale, Deed-In-Lieu of Foreclosures, and Reinstatement services, please contact me.

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