



Report Compliments of **Homes and Lifestyles of Colorado** - *Finding Your Place Called Home*

Denver Office: <http://www.DenverHomeLiving.com> - (303) 816-9199

## Loan Modification: Is it Right For You?



*What is loan modification? How is it different than refinancing a mortgage and what does it take to qualify for a lenders loan modification program.*

### What is loan modification?

President Obama recently announced a \$75 billion initiative called the Homeowner Affordability and Stability Plan (HASP). The main thrust of the plan is to reduce monthly mortgage payments for people with loans held by entities **other than Fannie Mae or Freddie Mac**. Full details of the plan were released on March 4, 2009 and the basics of the plan are centered on a loan modification program.

Loan modification programs are typically designed for homeowners who are having difficulty making their mortgage payment, but who can't qualify to refinance their mortgage. A loan modification is different than a refinanced mortgage which trades in one mortgage for another one. It also differs dramatically from foreclosure, a short sale, or a deed in lieu.

A loan modification usually involves reducing the underlying interest rate and in many cases it means converting the mortgage from from an adjustable rate mortgage (ARM) to a fixed rate mortgage. Other modifications can also include extending the term of the loan (for example from 30 to 40 years) and/or adding missed payments to the loan balance. The bottom line is that a loan modification is intended to reduce the payments for the borrower, make it more affordable, and reduce the risk that the homeowner will default on the loan.

### **Requirements for a Loan Modification**



Anyone can initiate a loan modification with their lender even if they don't qualify under the HASP plan. The process starts by contacting your lender. Prior to contacting your lender you will need your recent bank statements, most recent mortgage statement, income information and documentation, and a letter from you demonstrating financial hardship—be prepared to show that your monthly mortgage payment is at least more than 38% of your total monthly income. Below is an outline of the basic requirements of the HASP plan.

- Loans must have originated on or before January 1, 2009.
- Mortgages must be for a single-family residence with a loan balance no greater than \$729,750.
- Loans can only be modified once beginning March 4, 2009 through December 31, 2012.
- Home cannot be vacant or condemned and must be a primary residence—not investor owned.

- Interest rate can be lowered to as low as 2 per cent and the term of the mortgage can be extended to a maximum of 40 years in order to maximize the reduction in loan payment.
- Borrowers will need to provide an "affidavit of financial hardship", their most recent tax return, and two recent pay stubs.
- Service providers will be required to follow a sequence of steps that modify the loan in order to reduce the monthly loan payment to no more than 31% of gross monthly income.
- Homeowners who make their payments on time are eligible for up to \$1,000 of principal reduction payments each year for up to five years

### **Be Wary of Fee-based modification services**



Unfortunately lenders and HUD counselors have been flooded with requests for help, thus making it more difficult to find free help from a housing or credit counselor. If you decide to use a fee based service, your best bet is a recommendation from someone you trust like a family member. Even with a trusted recommendation, avoid paying fees in advance, try to find a service where the fee is based on results, and avoid any service that wants you to make your mortgage payments to them instead of your lender. See this article for more information on avoiding loan modification and foreclosure scams.

*This article contains general information. Individual financial situations are unique; please, consult your financial advisor or tax attorney before utilizing any of the information contained in this article.*

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