

## *Developing a Case for a Loan Modification*

### **What is a loan modification?**

A loan modification is an agreement between a lender and a borrower that changes (modifies) the terms of a loan to make the monthly payment more affordable. Changes may be made to the interest rate or to the number of years the borrower has to repay the loan. A loan modification may also be called a mortgage modification, loan restructuring, or workout plan.

### **How do I get a modification?**

**First, call your lender.** If you think that your mortgage payment is too high and you are having trouble making your payments and are in danger of default, call your lender or housing counselor immediately. Ask to talk with someone about a loan modification. You will most likely be transferred to the loss mitigation department or other “servicing”

***Call often! The squeaky wheel gets the grease. Each time you call, your file moves to the top of the pile. If you don't hear back from a lender after a week, call again.***

department. Be patient; you may need to navigate a phone tree. Work your way through until you reach a loss mitigation specialist. Make sure you are speaking to the

right department. If you end up in the collections department, they will focus on collecting your debt and *not* on modifying your loan. If you cannot reach the right department, hang up and try again.

**Take notes.** Write down the details of every conversation you have with your lender/ servicer. Include the date, time, who you talked to, and what was discussed. Do not write notes on scraps of paper.

Use a notebook or tablet just for this purpose. Also, put together a folder and keep copies of everything the bank or your servicer sends to you.

***Be honest! Tell your lender about your situation and be upfront about your financial hardship.***

**Gather your paperwork.** You will need to gather certain documents. Ask your lender for a list of what you need or check their website. Typically, you'll need:

- ▶ Last three months of bank statements
- ▶ Last three months of paystubs
- ▶ Past two years of tax returns
- ▶ Proof of hardship: papers showing proof of disability, divorce or separation, loss of a job or other income, copies of medical bills, etc.
- ▶ Create a record of other expenses such as utilities, medical bills, child support, car payments, credit cards, student loans, etc., and note if these payments are being made.

**Write a hardship letter.** When putting together a case for a lender, you may need to write a hardship letter. The purpose is to give details on why you're behind on your

mortgage. Your letter must be clear and to the point, and limited to one or two pages. This letter is your chance to show that you are a responsible individual, but that you are experiencing an unusual hardship. Explain why it's in the lender's best interest to modify your loan. A link to a sample hardship letter is listed at the end of this fact sheet.

**Prepare a budget.** Set up an emergency budget for your family that will get you through this difficult time. See the crisis budget fact sheet for ways to do this. Lenders will appreciate that you've thought this through and have a financial plan.

**What do lenders want?** Remember, it costs lenders to foreclose on customers. They do not want to foreclose; they want you to make payments on time and stay in your home. It is worth their time to work with you to modify your loan so it's affordable to you and so you can stay true to your debt obligation. The lender will want to see that you are employed and willing to make payments on time.

**Qualifying.** Your lender may have several modification programs to choose from, and each one will have different eligibility guidelines. Here are some of the common questions lenders will ask:

- ▶ Is the home your primary residence?
- ▶ Do you have a job?
- ▶ How much do you owe on your home? Do you

owe more than the home is worth?

- ▶ Is the monthly payment more than 31% of your monthly income? (*Use a calculator: multiply your monthly income by 0.31. If your mortgage payment is higher than that number, then you are paying more than 31%*).
- ▶ Are you currently making mortgage payments on time?
- ▶ When did you get your loan? Was it during a period of high-cost lending?
- ▶ Do you have more than one loan on your property? If so, what is the amount owed, lender and terms of that loan?
- ▶ Why are you having difficulty making payments? Was there an increase in your loan payment? Has your income decreased? Do you have a hardship that has increased your expenses, such as a medical problem?

***Watch out for scammers!***

*Unfortunately, there are crooks out there looking to take advantage of homeowners who need a modification. **Call your servicer directly for assistance.** If you are looking to another company for help, check them out with the Better Business Bureau or ask a local housing counseling agency or lawyer if they know of the company and if it does what it promises. Also, you can visit [loanscamalert.org](http://loanscamalert.org) for details on how to spot a scammer and see a list of trusted resources, plus information on how to report a suspected loan scammer.*

**Consider meeting with a housing counselor.** A counselor at a nonprofit housing counseling agency can help determine if a modification is possible. These trained professionals have access to the information you need, can help assemble your modification materials and build your case, and help you steer clear of scammers. Housing counselors can also help you with crisis budgeting, credit counseling and other methods of avoiding foreclosure. There are a number of ways to find a housing counselor; please see the reference list at the end of this fact sheet.

**Consider hiring a lawyer.** Many homeowners worry that hiring a lawyer is too expensive; however, there are attorneys who do pro bono work and nonprofit legal aid programs that offer free or inexpensive services. For a list of legal aid offices in New York state, visit [www.lawhelp.org/NY](http://www.lawhelp.org/NY) or call the state bar association.

### **What's next?**

#### **What if the lender approves my request?**

Once approved, your lender will facilitate the process for the modification. Follow directions. It is critical that you begin making payments immediately and on time.

#### **What if the lender rejects my request?**

If the lender rejects your request for a modification, don't give up; you may still be eligible for a successful modification. Call the lender immediately and ask for details on why the modification was denied. Sometimes it's a simple issue such as a missing document. Find out the reason, fix the problem and submit your request again.

**Moving on.** If you are certain that your modification will not be accepted and there is no way you can afford to stay in the home, there are still ways to exit the home without foreclosure. See the fact sheet on this topic for ideas. A number of options are covered including deed-in-lieu of foreclosure, short sale and rental options.

### **Resources**

- ▶ **Find a counselor.** Visit these websites to find a foreclosure counselor near you:
  - [www.findaforeclosurecounselor.org](http://www.findaforeclosurecounselor.org)
  - [www.hud.gov/offices/hsg/sfh/hcc/fc/](http://www.hud.gov/offices/hsg/sfh/hcc/fc/)
  - [www.995hope.org](http://www.995hope.org)
- ▶ New York State Bar Association: <http://www.nysba.org/>
- ▶ New York Law Help: [www.lawhelp.org/NY/](http://www.lawhelp.org/NY/)
- ▶ Explore federal programs such as MHA, HAFA, and EHLP: <http://www.makinghomeaffordable.gov/pages/default.aspx>
- ▶ Sample hardship letter: <http://www.loansafe.org/forum/loan-modification/135-examples-hardship-letter.html>

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