

Why Should You Get a Mortgage Loan Modification?

Do you qualify? How is it done?



I'm sure all of you are familiar with the rash of foreclosures occurring across the country. Every community in America has been affected, and the highest number of defaults and foreclosures in Florida, California and Nevada. So, how did all of this happen? Well, let's very quickly review some recent financial history: You've probably heard of a financial instrument called a collateralized debt obligation, or a CDO.

CDOs, also known as mortgage-backed securities, started to rise in popularity 10 years ago among large lending institutions as regulatory restrictions were eased and then stripped away. CDOs consist of hundreds of thousands, or even millions of mortgage loans that have been broken down into different parts: for example, a borrower's monthly payment for one loan provides consistent, predictable cash flow for approximately 30 years. But you can break this cash flow down in lots of different ways: you can break down monies applied to interest, to principal, and so on.

Suddenly, lenders found that they could take someone's loan payments, chop them up into lots of different pieces, bundle up all of those pieces with millions of other pieces of loans, and then sell them to lots and lots of investors. And make a fortune. So, instead of holding on to these notes for 30 years, the banks realized it was far more lucrative to sell them off within months, days or even hours. The result was that prime and sub-prime lenders had a tremendous incentive to lend to a very wide group of borrowers who would not have qualified for loans under stricter conditions. Mortgage brokers and lenders were plowing everyone through the door, baiting people with come-ons like no down-payment, or interest only payments and so on.

So a massive housing bubble starts to grow, with people buying up homes everywhere, and properties rising in value, and speculators getting in on the act, pushing real estate values up even higher. Then what happens? You have millions of people faced with huge balloon payments; or expiring interest only payments – meaning that their mortgage payments have most likely doubled; or introductory interest rates that have jumped way up to 9 or 12%, with a corresponding increase in monthly payments. At the same time, you've got lots of highly qualified homeowners who are hit hard by lay-offs and medical emergencies, who find they are paying a fortune for medical bills – bills which completely drain their savings and income.

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To compound all of this, unemployment rates start rising – and as more and more people are laid off, a debt deflation ensues so that people cannot buy things, and then you have round after round of businesses, factories and stores closing, with more and more unemployment. And voila, the housing bubble comes crashing down around us, as borrowers in all 50 states start defaulting. Property values plummet, and here we are in the midst of the worst housing crisis in this country's history. OK, so the mess has to be fixed, and regulators, lenders and the government need to be practical. That's where loan modifications come in: a modification is very simple. It changes the terms of the loan – ideally so that it is more affordable for the borrower.

Modifications can reduce interest rates, and change rates from variable to one low fixed rate and in rare cases lower the principle of the actual mortgage. Because of the reduced rates, monthly payments are lowered so that they become more manageable, and balloon payments are eliminated. Even better, a good modification will take the past due amounts and place them at the end of the loan, extending the terms, instead of forcing the borrower to come up with thousands of dollars upfront. Best of all, a good modification keeps borrowers in their homes – as long as documents are submitted properly, and as long as the borrower can prove reasonable income, it can stop a foreclosure or a sale date in its' tracks.

A modification can help you stay in your home whether you are current, or facing a sale date. One key for getting a modification approved is documentation. Most lenders will have detailed instructions about how to submit paperwork for modification on their web sites. This is called a loan workout request. Submitting the paperwork is not difficult – but the key is to be sure that your package is complete. Lenders will always reject a modification request if documents are missing, and very often these missing documents or pieces to the puzzle are small and don't seem significant, but the lender has guidelines and every single piece needs to be sent in and filled out properly. The other key component to a very successful modification is the debt to income ratio, or DTI. Of course, this is reviewed on a case-by-case basis, but quite simply, the DTI that concerns the lenders is the amount of your income in relation to what's called the PITIA: that's principle, plus insurance, taxes and homeowners' fees. Your DTI has got to fit into the right parameters for your modification to be approved.

That's where the OBAMA plan comes in. Banks love to place borrowers on this plan because they get a lot of money from the government for each modification. Also known as HAMP, or Home Affordability Modification Plan, the goal here is to bring the DTI down to 31%. That means that anyone with a DTI over 31% qualifies –of course a borrower with say a 60% DTI will get a much greater reduction than a person with a 33%

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DTI. However, most lenders have lots of different modification plans, so if you don't qualify for HAMP, or don't get a great reduction with the Obama plan, then your lender might consider you for something else. The overriding goal is to keep people in their homes – let's face it, what's the alternative? The lender will be forced to sell the property at auction, often at 10 to 30 cents on the dollar – that's if the property sells.... So, what if you try to do a modification on your own, but find that for whatever reason, you are turned down? This scenario is very typical, by the way. That's when you need to contact a specialist, or third party advocate, who can intercede for you with your lender. In fact, most people who use third party advocates are those whose modification requests were declined. Particularly if you have had a modification denied, a third party advocate with a reputable firm is the way to go.

These people know the ins and outs of the system, and understand just what the banks are looking for in terms of documentation and most important of all, income versus expenses. A third-party advocate is especially critical if you are seriously delinquent, or facing foreclosure, or, especially, if you have a sale date. They are very good at reviewing your documentation – once you fax your paperwork over to an advocate; a processor calls you, goes over income and expenses thoroughly, and pores over everything to be sure that it is just what the lender requires. An underwriter then analyzes your paperwork; numbers are calculated, a package is prepared and the paperwork is submitted to the lender.

The advocate then follows up with your lender repeatedly to be sure that the review process is on track. If you have a sale date, then the advocate will be in touch with your lender every day until the sale date is postponed or stopped permanently. The same thing goes for foreclosures. In the end, borrowers are placed on forbearance plans, or trial plans or permanent plans, depending on which program the lender has placed you on. The advocate then gives you specific instructions, which ensures a permanent modification. Most borrowers who use loan modification specialists have very good results. Of course, if you do decide to use an advocate, always ask lots of questions and check out that company's credentials – the BBB of course, is a good place to start.

For a FREE appraisal of your situation and to find out if you are a good candidate to qualify for a mortgage modification, visit us at www.PreviewNet.com/savemyhome, email savemyhome@previewnet.com or call John Brodie (954) 284-4507.

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