

# Reinstatement Loss Mitigation Options

## Refinance

This is paying off your existing mortgage loan on your home with a new loan that better fits your current needs.

### What you need to know:

- ⇒ You must have the ability to **refinance**. This means:
  - You have a strong **credit history**.
  - Your payments are not yet overdue.
  - Your **credit** is not damaged.

## Reverse Mortgage Loan

This is a loan in which the lender makes monthly payments to you instead of you making payments to the lender. This allows you to turn the **equity** in your home into income.

### What you need to know:

- ⇒ You must be 62 years of age or older to be eligible for this loan.
- ⇒ You can find more information on the reverse mortgage loan at <http://www.hud.gov/buying/rvrsmort.cfm>.

## Repayment Plan

This option allows you to become current on your mortgage payments over time.

### What you need to know:

- ⇒ The plan can extend from 2 to 18 months, but it is usually less than 12 months.
- ⇒ Your lender may require a good-faith payment, which is usually equal to one month's payment.
- ⇒ The plan may require **investor** or **mortgage insurance** company approval.
- ⇒ Some lenders are willing to combine a repayment plan with forbearance to help you become financially stable. See page 3 for more on forbearance.
- ⇒ You should always request a written copy of the repayment plan.

### How to figure the new payment under the plan:

1. Add up all items that are overdue, including the following:
  - Monthly payments, including **escrows**
  - **Interest** on the amount overdue
  - Late fees
  - **Appraisal** and **title search fee**
  - Legal fees
2. Divide this total amount by the number of months in the repayment plan.
3. Then add the result from step two to your normal monthly payment.

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## Loan Modification

The lender changes one or more terms of your mortgage loan, such as the type of loan, interest rate, payment amount, and loan term.

### Terms of the Loan:

- ⇒ **Type of loan:** Changing an adjustable rate mortgage (ARM) to a fixed rate mortgage can protect you from an unaffordable increase in your interest rate. This could prevent delinquency before it happens.
- ⇒ **Interest rate:** A lower interest rate can result in a lower, more affordable monthly mortgage payment.
- ⇒ **Payment amount:** Lenders do not often reduce your loan balance to make your payments more affordable with a modification. Some lenders refer to this as a short refinance. Instead, the lender usually adds the total amount you owe to your principal balance on the new loan. In this case, your loan amount increases. However, you pay off this higher loan amount over the entire loan term, which results in a smaller increase in your monthly mortgage payments.
- ⇒ **Loan term:** Extending your loan term from 30 years to 40 years may reduce your monthly mortgage payment.

### What you need to know:

- ⇒ The lender considers the modified loan a new loan. It replaces your existing loan.
- ⇒ Your lender may require a good-faith payment.
- ⇒ Your lender may require that you demonstrate your ability and willingness to make the payment on the new loan.
- ⇒ Your lender may charge you a fee for the modification.
- ⇒ The loan modification may require investor or mortgage insurance company approval.
- ⇒ Your lender will need to update its loan title policy and subordinate any second liens you may have on the home.
- ⇒ The lender must put the loan modification in writing.

### This might be the right option if:

- ⇒ Your loan is more than 12 months old.
- ⇒ You have never modified your loan before.
- ⇒ You are facing increased payments on an ARM loan.
- ⇒ Your income reduction is long term.
- ⇒ Your income supports the new payment.
- ⇒ You do not have the money to afford a short-term repayment plan.
- ⇒ The housing market is depressed or you have little equity, this is a better option than foreclosure.

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## Forbearance

*This is an agreement by your lender to delay or reduce your normal mortgage payments for a fixed period of time.*

### **What you need to know:**

- ⇒ During forbearance, the lender stops all legal action against you. This includes charging you late fees, and stopping all collection and foreclosure activities.
- ⇒ There are three types of forbearance:
  1. **Informal forbearance:** If the amount you owe is small and the fixed period is less than three months, your lender may make a verbal forbearance agreement with you.
  2. **Formal forbearance:** If the amount you owe is large and you need an extended fixed period, the lender usually requires a written forbearance agreement.
  3. **Special forbearance:** This is for **FHA mortgage loans** only. It has specific requirements for the length of delinquency, the fixed period, and who can **qualify**. It requires a written agreement between you and the lender. The loan must be at least three months old, and you must be no more than 12 months overdue.
- ⇒ At the end of the fixed period, you must repay the entire amount you owe through a payment plan.
- ⇒ Forbearance is more common on loans with mortgage insurance, such as an FHA mortgage loan.
- ⇒ Some lenders are willing to combine forbearance with a repayment plan, loan modification, or partial or advance claim.

### **This might be the right option if:**

- ⇒ The cause of the overdue payments is specific and temporary, such as an illness.
- ⇒ You anticipate some future funding, such as a new job, tax refund, or bonus.
- ⇒ There is reasonable evidence of your ability to resume the payments after the fixed period. Forbearance is not going to help you if you are in a home you simply cannot afford.

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## Partial or Advance Claim

This involves the FHA agreeing to make a one-time payment to your lender to cover all or part of what you owe so your lender can **reinstate** your FHA loan.

### What you need to know:

- ⇒ This option is only available for FHA mortgage loans.
- ⇒ You must sign a **promissory note** to repay the advanced amount to the FHA.
- ⇒ You usually pay little or no interest on this amount.
- ⇒ You usually do not have to repay the advancement until you sell your home or pay off your FHA loan.
- ⇒ The lender will likely offer this option only if a loan modification, repayment plan, or refinance will **not** cure the loan.

### This might be the right option if:

- ⇒ You can demonstrate the cause of your late payments has been resolved.
- ⇒ You can resume making normal payments afterwards.
- ⇒ You do not have enough in your savings to repay the total amount you owe to the lender.



**For all loss mitigation, you should consider seeking help from an attorney, housing counselor, or accountant who is familiar with these options.**



**Lenders may require you to show that you are making a good-faith effort to pay your mortgage before they agree to any loss mitigation option. For example, they may require you to show you have reduced other expenses.**

# Reinstatement Loss Mitigation Options

## Glossary Terms

**Adjustable rate mortgage (ARM):** A loan with an interest rate that can change at set times.

**Appraisal fee:** A fee that some lenders charge. It reimburses the lender for the cost of receiving an appraisal. An appraisal is a report completed by an expert who evaluates your home and gives it a dollar value.

**Credit:** Your ability to pay bills on time. Certain companies track your credit by keeping records of your payments, balances, and other information on loans, credit cards, and other debts.

**Credit history:** How you have paid your bills in the past.

**Delinquency:** The non-payment of a debt.

**Equity:** The current value of your home minus what you owe on the home. It is what you financially *own* of your home.

**Escrows:** When you pay your property taxes and / or homeowners insurance on a monthly basis with your mortgage payment. Your lender then delivers the money to the person or business owed when it becomes due. Some states use the term impound instead of escrow.

**FHA mortgage loans:** Loans insured by the Federal Housing Administration (FHA). The FHA, a division of the Department of Housing and Urban Development (HUD), provides insurance to approved lenders on FHA mortgages sold to customers. This means if you fail to make your payments on an FHA mortgage, the FHA pays your lender.

**Fixed rate mortgage:** A loan in which your interest rate and monthly payments remain the same throughout the life of the loan.

**Housing market:** The supply and demand of homes in a specific area.

**Interest:** What your lender charges you for the privilege of borrowing money. It is usually a percentage of the amount you owe. Interest is a part of your total mortgage payment.

**Interest rate:** Interest is the amount a lender charges you for the privilege of borrowing money. It is usually calculated as a percentage of the amount you owe. The interest *rate* is the percentage you pay over a period of time, usually a year.

**Investor:** Any party that has an ownership interest in the loan. There could be more than one investor.

**Loan term:** A fixed number of years in which you must pay your mortgage loan in full.

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**Mortgage insurance:** A policy that protects approved mortgage lenders. It pays your lender a portion of your mortgage loan amount if you fail to make your mortgage payments. Lenders sometimes refer to MI as private mortgage insurance (PMI).

**Principal balance:** The unpaid amount of your mortgage loan on which your lender charges interest.

**Promissory note:** A document that promises you will make regular payments to pay back the money you borrowed.

**Qualify:** The ability to meet the requirements under the agreement.

**Refinance:** To pay off an existing mortgage loan on your home with a new mortgage loan that better fits your current needs.

**Reinstate:** To cure the loan of all delinquency.

**Second liens:** Any loan on the home where there is already an existing mortgage loan.

**Subordinate:** To rank or order as less important, or consider of less value.

**Title policy:** Insurance that protects the property owner and the lender from any loss caused by certain title defects. Title means ownership rights. Examples of title defects include a previously unpaid mortgage loan or someone else claiming title to the property. The title policy is also known as title insurance.

**Title search fee:** A title search is an examination of the property's ownership history. Each property has documents recorded at the local recorder's office. These documents list prior owners of the property, lenders, and other interests in the property, such as liens and easements. A title search is sometimes called a title examination. The individual or company that completes the search charges this fee.