**Module 5.2**
**Study Guide**

# HUD Housing Counselors Training

U.S. Department of Housing and Urban Development

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# Module 5.2 Avoiding Foreclosure/ Retention Options

## Module Introduction

Module 5.1 provided an overview of foreclosure and regulatory measures to protect consumers, and where counselors can go to find more information on available loss mitigation/retention programs and resources. In this module, we move on to a discussion of retention options.

To fully support clients who are struggling with mortgage payments, foreclosure counselors regularly review retention strategies and often request repayment plans, forbearance agreements, loan modifications, or other loss mitigation options. Counselors must be familiar with mortgage servicing processes and loss mitigation requests to determine which option is best suited for each client.

In this module, you will learn about different retention strategies for clients to remain in their homes, mortgage default scams, and how to report them. In Module 5.3, you'll learn about disposition strategies and how to help clients transition away from their homes.

### Lesson Objectives

By the end of this module, you'll be able to:

1. Apply knowledge of programs and options for loan modification, refinance, or principal reduction when assessing a client's circumstances for foreclosure prevention options.
2. Demonstrate knowledge of the necessary forms and requirements for a mortgage lender's loss mitigation package.
3. Evaluate a client's information to discuss appropriate loss mitigation options for clients with an FHA-insured loan.
4. Apply knowledge of mortgage default scams to describe ways to avoid these scams and where to report falling victim to a scam.

### Foreclosure Prevention Options

In this module, you will learn how foreclosure counselors assist clients who are seeking external help to prevent foreclosure on their homes. To ensure counselors provide accurate information, they need to be familiar with programs and initiatives that offer assistance to homeowners facing foreclosure.

**GSE loan or mortgage**

A government-sponsored enterprise, or GSE, is a financial services entity created by Congress. A GSE loan or mortgage refers to a mortgage owned by Fannie Mae or Freddie Mac.

In 2009, the federal government launched Making Home Affordable (MHA) which is an initiative to assist struggling borrowers. Although no longer accepting applications, the MHA program continues to provide guidance about options for mortgage assistance. The program helped set standards for permanent replacements to staple components like the Home Affordable Modification Program, or HAMP, and the Home Affordable Refinance Program, or HARP.

Government agencies such as the Federal Housing Finance Agency, or FHFA, encouraged similar products through government-sponsored enterprises, or **GSE**s. For example, Fannie Mae and Freddie Mac offer high loan-to-value (LTV) streamlined refinance options modeling HARP, which was designed to assist homeowners who were current on mortgage payments but unable to secure traditional refinancing due to declining home value.

Under the MHA HAMP, homeowners who modified mortgages may be in need of additional assistance. Since the expiration of MHA programs, the GSEs offer Flex Modification options for conventional borrowers. Take a look below at the program's key features.

**Fannie Mae Flex Modification and Freddie Mac Flex Modification®**

**Overview:** The Flex Modification leverages Fannie Mae and Freddie Mac Standard and Streamlined Modifications. Modifications can be applied to all mortgage loan delinquencies and to mortgage loans determined to be in imminent default.

**Purpose:** To provide an easier, flexible way of helping more borrowers qualify for a loan modification in a changing housing environment

**Benefit:** Provides eligible borrowers an option to resolve delinquency and sustain homeownership by targeting a 20% payment reduction

**Key Eligibility:**

Borrower must:

- Be 60 days or more delinquent and occupy the property as a primary residence

OR

- Be current or less than 60 days delinquent, occupy the property as a primary residence, and be in imminent default

AND

- Submit a Borrower Response Package (BRP), which includes:
  - Completed and signed Form 710, Uniform Borrower Assistance Form
  - Eligible hardship documentation
  - Documentation to verify stable income to support a monthly payment
  - Imminent default hardship documentation, for borrowers less than 60 days delinquent

**Restrictions based on:**

Mortgage loan:

- Must be owned by Fannie Mae or Freddie Mac to qualify for respective program
- Must have originated at least 12 months prior to loan modification request
- Must not have been modified three or more times previously, regardless of the loan modification program or dates of prior modifications

Primary residence:

- If investment property, must be more than 60 days delinquent

*Streamlined eligibility exceptions may apply to certain borrowers.

- No borrower documentation is required for borrowers 90 days delinquent or more.

Loss mitigation options are also available to borrowers with mortgages insured or guaranteed by FHA, VA, or USDA. Specific options for FHA mortgages will be discussed later in this module. Borrowers with these mortgages should reach out to their servicers to discuss their options. If borrowers need assistance in negotiating with their servicer or need to escalate an issue, they can contact FHA, VA, or USDA for further assistance.

### Manufactured Home Retention Options

Manufactured home loans are typically difficult to refinance or modify unless they are mortgaged as real property. Assuming the borrower qualifies, manufactured home mortgage loans are typically eligible for refinance or modification through the relevant conventional or government-insured loss mitigation programs described in this module.

The FHA Title I Manufactured Home Loan described in Module 4.1 can be used to refinance an existing chattel or personal manufactured home loan for qualified borrowers. Generally, loss mitigation programs are not offered by lenders for chattel or personal property loans secured by a manufactured home, though some lenders may negotiate loan terms as part of the collections process.

Personal and chattel loan borrowers should contact their lender to discuss repayment options as soon as it becomes apparent that they may miss a loan payment. Depending on the amount owed, the lender may be willing to defer payments or offer a pay-off amount to bring the loan current. Housing counselors should refer clients who are vulnerable to manufactured home repossession to legal aid providers who can help determine if bankruptcy could offer protection against repossession.

Financially vulnerable manufactured-home owners on leased land must also maintain the lease payments for the lot to avoid eviction.

### Knowledge Check 1

Generally, modification options offer relief to homeowners _______, while refinance options target borrowers _______.

A. in default; in good standing

B. in good standing; in default

C. with GSE loans; with non-GSE loans

D. with non-GSE loans; with GSE loans

## Submitting a Loss Mitigation Package

In Module 5.1, you met Craig, a client at risk of foreclosure. In this module, Craig returns to meet with his foreclosure counselor, Carmen. Review the notes below detailing the circumstances of Craig's situation from the previous counseling session.

*A Client, Craig, and a Counselor, Carmen*

**Craig**

- He was laid off and is actively applying for full-time employmen
- He is behind on his mortgage payments and has received a Notice of Default.
- He doesn't want to lose his house.
- He has a conventional mortgage, and it is not owned by Fannie Mae or Freddie Mac.
- His monthly income from unemployment was $2,150, and his monthly expenses were $3,255.
- He created an emergency budget and now has some monthly surplus income.
- His wife and older children may work to help pay the bills, and the entire family will work to reduce expenses.
- He hopes his mortgage servicer will lower the payments until he finds a new job and then help him develop a payment schedule to catch up on his payments.

Let's sit in on their second counseling session, which occurs two weeks after the first one.

CARMEN: It's good to see you again, Craig. Have you heard from the unemployment assistance programs to which you applied?

CRAIG: No, not yet. I do have news, though. I got a job. It is one that I had interviewed for a month ago. It pays less than my old job, but it will still help with my request for assistance from my lender, right?

CARMEN: That's great news. Yes, it will. If you were unemployed, your servicer might have offered you another workout option. Because you are now employed, a forbearance or repayment plan doesn't seem to be the best option.

Since you have a new job, but your new income will be lower, we should request a modification. It wasn't appropriate when you were unemployed, but it is now. We can show them what your budget will be with your new income and see if they will consider modifying the mortgage terms and adding the past due amount into the mortgage.

Recall from Module 5.1 the steps to submit a loss mitigation package.

**Loss Mitigation Submission Process**

1. Establish the reason the client is behind on mortgage payments.
2. Determine if homeowner wants to remain in the home (retention) or transition out of the home (disposition).
3. Identify the mortgage type (conventional, FHA, VA, USDA, or owned by Fannie Mae or Freddie Mac) to understand the available options and processes provided by the servicer.
4. Gather required financial documentation and determine affordability.
5. Complete the necessary forms to request the loss mitigation option.
6. Submit the request to the servicer.
7. Respond to additional requests for information.
8. If request is approved, discuss if it is affordable. If it is denied, determine why. Escalate, if necessary.

Carmen and Craig have now completed steps 1–5 of the process and will continue with the additional steps.

## Documentation for Loss Mitigation Requests

CARMEN: Let's start the process of applying for assistance. With new programs and options, the loss mitigation request process is easier and more transparent than it used to be. We can check with your servicer, City Second Bank, to see if they provide any specific options.

CRAIG: Okay.

CARMEN: We have to gather the required **financial documentation**. I know you have some of this already.

### Financial Documentation

Though specific requirements will vary based on servicers and programs, clients generally need to submit the following financial documents with their application:

- Monthly mortgage statement
- Information about other mortgages on the home, if applicable
- Two most recent pay stubs for all household members contributing toward the mortgage payment
- Last two years of tax returns
- The most recent quarterly or year-to-date profit and loss statement, if self-employed
- Documentation of income from other sources, such as alimony, child support, social security, etc.
- Two most recent bank statements
- A utility bill under the homeowner's name and the property address
- Unemployment insurance letter, if applicable
- Account balances and minimum monthly payments due on all credit cards
- Information about savings and other assets
- A letter describing any circumstances that caused reduced income or increased expenses, such as job loss, divorce, or illness of you or a family member you care for, may be helpful, although not always required

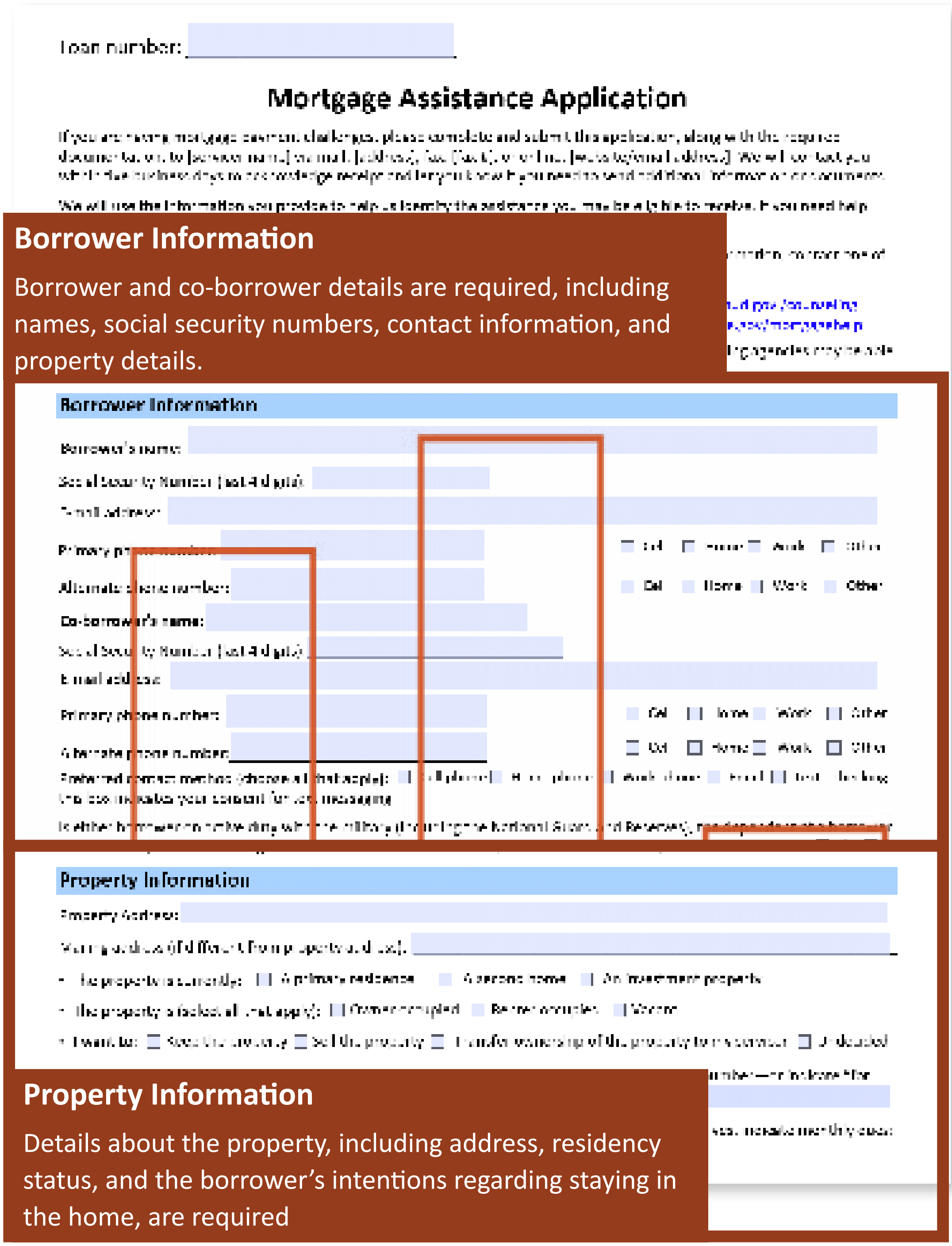
CRAIG: Okay. I have most of it, but I'll make sure everything is current.

Carmen. Next, we have some forms to complete. Let's look at the first one, the Request for Mortgage Assistance (RMA) form.

To be considered for mortgage loan modification options, complete an RMA, such as the Fannie Mae 710 form provided. Note that the information is for educational purposes, as format and branding may differ between servicers. Specific details and certifications required will vary by servicer.

**Request for Mortgage Assistance (RMA)**

Borrowers must complete this application to be considered for mortgage loan modification options



## Hardship Information

The reason for the applicant's modification request and the necessary documentation to verify the hardship are required..

### Hardship Information

The hardship causing mortgage payment challenges began on approximately (date) ____________ and is believed to be:

- ☐ Short-term (up to 6 months)
- ☐ Long-term or permanent (greater than 6 months)
- ☐ Resolved as of (date) ____________

| TYPE OF HARDSHIP (CHECK ALL THAT APPLY) | REQUIRED HARDSHIP DOCUMENTATION |
|---|---|
| ☐ Unemployment | ▪ Not required |
| ☐ Reduction in income: a hardship that has caused a decrease in your income due to circumstances outside your control (e.g., elimination of overtime, reduction in regular working hours, a reduction in base pay) | ▪ Not required |
| ☐ Increase in housing-related expenses: a hardship that has caused an increase in your housing expenses due to circumstances outside your control (e.g., uninsured losses, increased property taxes, HOA special assessment) | ▪ Not required |
| ☐ Disaster (natural or man-made) impacting the property or borrower's place of employment | ▪ Not required |
| ☐ Long-term or permanent disability, or serious illness of a borrower/co-borrower or dependent family member | ▪ Written statement from the borrower, or other documentation verifying disability or illness<br>**Note:** Detailed medical information is not required, and information from a medical provider is not required |
| ☐ Divorce or legal separation | ▪ Final divorce decree or final separation agreement OR<br>▪ Recorded quitclaim deed |
| ☐ Separation of borrowers unrelated by marriage, civil union, or similar domestic partnership under applicable law | ▪ Recorded quitclaim deed OR<br>▪ Legally binding agreement evidencing that the non-occupying borrower or co-borrower has relinquished all rights to the property |
| ☐ Death of borrower or death of either the primary or secondary wage earner | ▪ Death certificate OR<br>▪ Obituary or newspaper article reporting the death |
| ☐ Distant employment transfer/relocation | ▪ For active duty service members: Permanent Change of Station (PCS) orders or letter showing transfer<br>▪ **For employment transfers/new employment:** Copy of signed offer letter or notice from employer showing transfer to a new location or written explanation if employer documentation not applicable, AND<br>▪ Documentation that reflects the amount of any relocation assistance provided (not required for those with PCS orders) |
| ☐ Other – hardship that is not covered above: | ▪ Written explanation describing the details of the hardship and any relevant documentation |

## Borrower Income

Documentation supporting the combined monthly income, expenses, and assets of both the borrower and co-borrower is required.

### Borrower Income

Please enter all borrower income amounts in middle column

| MONTHLY TOTAL BORROWER INCOME TYPE & AMOUNT | | REQUIRED INCOME DOCUMENTATION |
|---|---|---|
| Gross (pre-tax) wages, salaries and overtime pay, commissions, tips, and bonuses | $ | • Most recent pay stub and documentation of year-to-date earnings if not on pay stub OR<br>• Two most recent bank statements showing income deposit amounts |
| Self-employment income | $ | • Two most recent bank statements showing self-employed income deposit amounts OR<br>• Most recent signed and dated quarterly or year-to-date profit/loss statement OR<br>• Most recent complete and signed business tax return OR<br>• Most recent complete and signed individual federal income tax return |
| Unemployment benefit income | $ | • No documentation required |
| Taxable Social Security, pension, disability, death benefits, adoption assistance, housing allowance, and other public assistance | $ | • Two most recent bank statements showing deposit amounts OR<br>• Award letters or other documentation showing the amount and frequency of the benefits |
| Non-taxable Social Security or disability income | $ | • Two most recent bank statements showing deposit amounts OR<br>• Award letters or other documentation showing the amount and frequency of the benefits |
| Rental income (rents received, less expenses other than mortgage expense) | $ | • Two most recent bank statements demonstrating receipt of rent OR<br>• Two most recent deposited rent checks |
| Investment or insurance income | $ | • Two most recent investment statements OR<br>• Two most recent bank statements supporting receipt of the income |
| Other sources of income not listed above (Note: Only include alimony, child support, or separate maintenance income if you choose to have it considered for repaying this loan) | $ | • Two most recent bank statements showing receipt of income OR<br>• Other documentation showing the amount and frequency of the income |

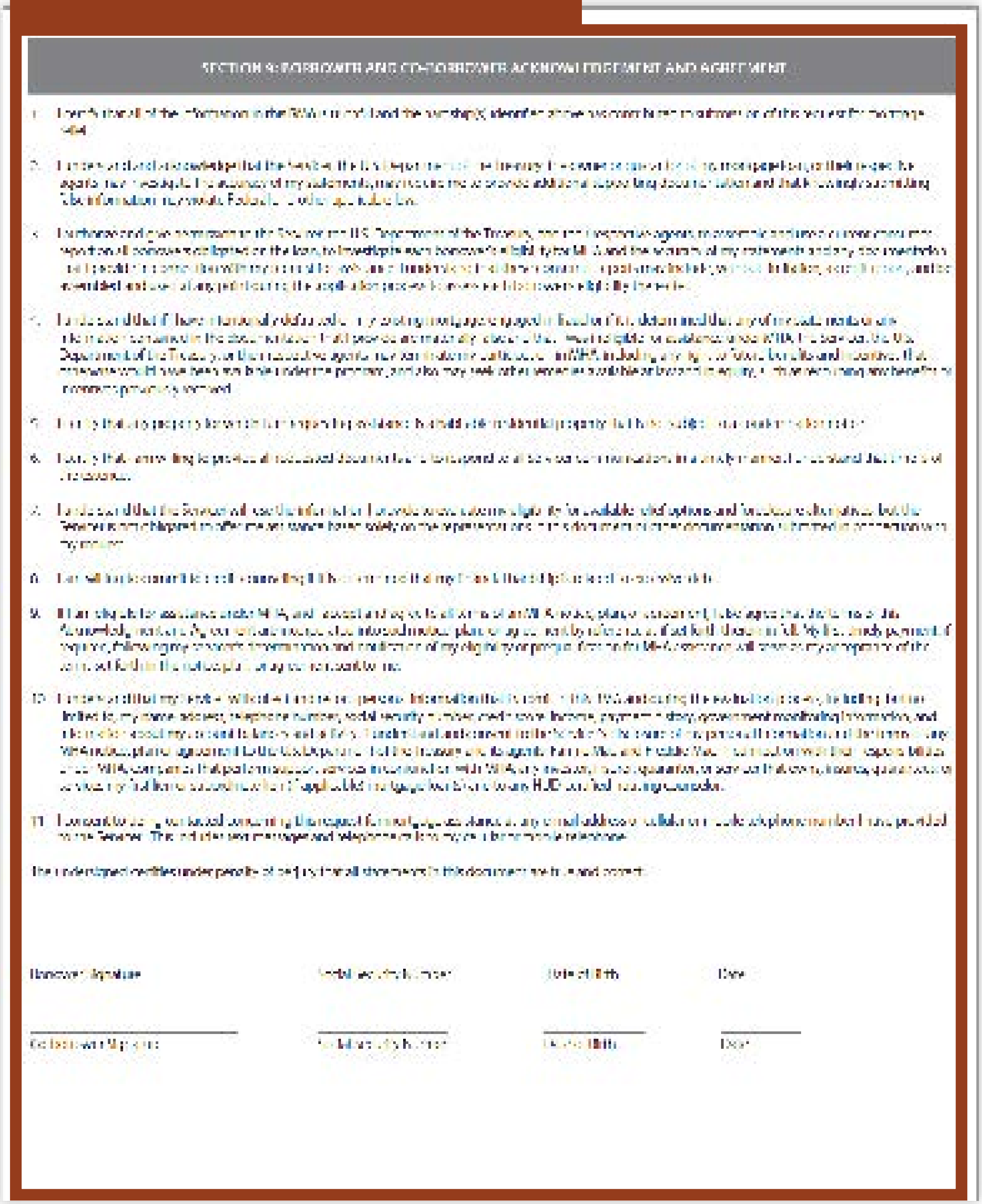
### Current Borrower Assets

Exclude retirement funds such as a 401(k) or Individual Retirement Account (IRA), and college savings accounts such as a 529 plan.

| | |
|---|---|
| Checking account(s) and cash on hand | $ |
| Savings, money market funds, and Certificates of Deposit (CDs) | $ |
| Stocks and bonds (non-retirement accounts) | $ |
| Other | $ |

**Borrower Certification and Agreement**

By signing, the borrower certifies that the information in the application is truthful.


SECTION 9: BORROWER AND CO-BORROWER ACKNOWLEDGEMENT AND AGREEMENT

Borrower Signature | Social Security Number | Date of Birth | Date

Co-Borrower Signature | Social Security Number | Date of Birth | Date

CRAIG: So this is the application? It's very thorough.

CARMEN: This is the application your servicer uses. Other borrowers may see a different form, but all servicers require similar information. Another requirement for the application is submitting the 4506-C form, which gives your servicer permission to look at your most recent tax returns. The 4506-C is a one-page form that asks for a few pieces of information and a signature.

CRAIG: If I send them my tax returns though, why do they need to request them from the IRS?

CARMEN: Good question. It's mainly so servicers can verify that fraudulent returns aren't sent in with modification requests. Unfortunately, this has happened a lot in the past. Once these forms are complete and you have gathered all the financial documentation, we can submit the request to City Second Bank. Let's try to do this as soon as possible.

CRAIG: Okay. Thank you for your help. I'll have it all for you by the end of next week.

The next step in the process will be to submit the request to the servicer and escalate the case if necessary after a decision is made. Cases are typically escalated for one of two reasons: the workout request is denied or the workout offered is unaffordable. Denials occur when the client does not have enough income, the LTV ratio is too high, the application is missing information, or the servicer wants updated financial information.

If the client is offered a workout that is unaffordable, the case should be escalated to ensure the servicer is using the correct calculations. Servicers have different guidelines for escalation processes, and ultimately clients and counselors have to communicate with the servicer and go through their process to try to fix the problem.

Since the retirement of Hope Loan Port (HLP.org), the mortgage industry adopted similar technology for customer needs. In the absence of a standard tool, borrowers and counselors must diligently document all communications with servicers.

## Knowledge Check 2

Which financial documentation should be **excluded** from the loan modification request?

A. Two most recent bank statements
B. Utility bill showing homeowner name and property address
C. Last two years of tax returns
D. Information on amounts paid for child care

## FHA Loss Mitigation Options

*A Counselor, Elizabeth, and a Client, Diego*

Several workout options are available for clients with FHA-insured mortgages who are facing foreclosure. All servicers that offer FHA-insured mortgages must review retention options first, and are required to consider all options in the following order:

1. Attempt to bring the mortgage current.
2. Determine eligibility for Informal and Formal Forbearance Plans.
3. Determine eligibility for Special Forbearance - Unemployment Agreement.
4. Determine eligibility for FHA-HAMP Loan Modification.
5. Consider a pre-foreclosure sale.
6. Consider a deed-in-lieu.

Now, let's listen in on a counseling session. Elizabeth, a foreclosure counselor, has a new client, Diego. Diego has not paid his FHA mortgage for the last two months.

Elizabeth: Hi, Diego. How can I help you today?

Diego: Hi. I bought my home four years ago with an FHA loan, and I'm two months behind on my mortgage payments. My income hasn't changed; however, my expenses increased temporarily because my son needed surgery and then we had to replace the roof. Money just got tight. Now I need help figuring out what to do.

Elizabeth: Okay, FHA has a number of loss mitigation options. Let's work together to see what's going on and look at the options available to you.

Diego: Yes, I need some help. My family and I have cut down on our expenses as much as possible, but we cannot seem to catch up on the outstanding balance.

With delinquent FHA loans where the borrower doesn't have the funds on hand to bring the mortgage current, servicers must first evaluate clients for forbearance plans, or arrangements that may allow for a period of reduced or suspended payments, and provide specific terms for repayment.

FHA offers Informal Forbearance Plans, which consist of verbal arrangements lasting less than three months, and Formal Forbearance Plans, which are written agreements lasting three to six months.

A client's options will depend on their circumstances, including financial evaluation and surplus income. For example, Informal and Formal Forbearance Plans are the only options available for delinquent mortgagors without verifiable losses of income or increases in living expenses.

## FHA Loss Mitigation Home Retention Options

### Informal/Formal Forbearance Plan

**Purpose**: To assist borrowers who are temporarily struggling to make mortgage payments

**Benefit**: Allows for a period of reduced or suspended payments and may provide specific terms for repayment, depending on the circumstances. Lenders must consider these steps before proceeding with other options.

**Key Eligibility**

Borrower must:

- Occupy home as primary residence
- Demonstrate financial hardship
- Demonstrate income
- Demonstrate surplus income over minimum limit (85% of surplus income must be sufficient to bring the mortgage current within 6 months)

*Note: Informal or Formal Forbearance Plans are the only options available for delinquent mortgagors without verifiable losses of income or increases in living expenses.*

### Special Forbearance - Unemployment Agreement

**Purpose**: To assist unemployed borrowers

**Benefit**: Suspends and/or reduces the current monthly mortgage payment, ensuring that forbearance installments are based on the borrower's ability to pay. If the borrower's circumstances change, the servicer can reevaluate and adjust the payment. The agreement will include an expiration date, though it can be revised or terminated earlier due to a change in financial circumstances. Prior to expiration, the borrower will be evaluated for an additional forbearance period or a permanent loss mitigation option.

**Key Eligibility**

Restrictions based on:

- Mortgage delinquency (at least three months delinquent, or more than 61 days)
- Maximum arrearage (not to exceed 12 months of PITI)
- State of property (not in foreclosure or foreclosure actions suspended)

Borrower must:

- Have verified unemployment status, leading to loss of income or increase in living expenses
- Occupy home as primary residence

## FHA-HAMP Loan Modification

Effective March 1, 2017, the traditional FHA Loan Modification Option was eliminated from HUD's Loss Mitigation Waterfall. All FHA borrowers will be assessed for FHA-HAMP eligibility. Review the FHA Single Family Housing Policy Handbook 4000.1 for more information.

**Purpose:** To assist borrowers who are struggling to make mortgage payments because they are no longer affordable and do not qualify for other FHA options

**Benefit:** Allows the mortgage to be reinstated by establishing an affordable monthly payment and/or through a partial claim

### Key Eligibility

Restrictions based on:

- Mortgage delinquency (in default or imminent default. Loan can be in foreclosure at time of FHA HAMP review but not at the time modification documents are executed.)
- Loan origination date (at least 12 months elapsed)
- Mortgage payments paid (at least four payments)
- Previous receipt of an FHA-HAMP Loan Modification (cannot be within previous 24 months)
- Partial Claim amount (cannot exceed 30% of unpaid principal balance)

Borrower must:

- Demonstrate verifiable loss of income or increase in living expenses
- Submit hardship affidavits
- Be ineligible for other FHA workout options
- Occupy home as primary residence
- Demonstrate continuous income (at least one borrower)
- Show surplus income insufficient to cure arrears in six months
- Successfully complete a Trial Payment Plan based on the FHA-HAMP monthly mortgage payment amount

**Partial Claims:** Defers some principal so monthly payments are affordable. Payment is not required until the maturity of the FHA-HAMP mortgage, the sale of the property, or the payoff or non-FHA refinancing of the mortgage; and no interest is charged.

### Standalone Partial Claim

Offered if all the following criteria are met:

- Current interest rate is at or below market rate
- Affordable mortgage payment cannot be achieved by re-amortizing the mortgage for 360 months at market rate
- Borrower meets all requirements of the FHA-HAMP Option
- Borrower is three months past due (61 days or more)

### Combination of FHA-HAMP Loan Modification and FHA-HAMP Partial Claim

Used to establish an affordable monthly payment and provide an amount to cover:

- Arrearages
- Legal fees and foreclosure costs
- Principal deferment

## Selecting a Loss Mitigation Program

In the first step to determine Diego's options, Elizabeth helps Diego calculate his income and expenses, which helps to determine his surplus income, a significant factor in qualification for certain FHA options. Let's take a look at the financial information Elizabeth needs and then we'll review the financial calculations used.

### Basic Information

- Net monthly income = $3,000
- PITI = $900
- Expenses = $1,500

### Surplus income

Monthly income– PITI – Expenses = Surplus Income

$$
\begin{array}{r}
\$3000 \\
\$900 \\
-\ \$1500 \\
\hline
\$600
\end{array}
$$

### Surplus Income Percentage

Surplus income/ Net income = Surplus Income Percentage

$$\frac{\$600}{\$3000} = 20\%$$

### Arrearages

Number of mortgage payments missed x PITI = Arrearages

$$2 \times \$900 = \$1800$$

**Forbearance Qualification Criteria**

Arrearages / (.85 x surplus income) = # of months for payment

$$\$1800 \div (.85 \times \$600) = 3.5$$

### Forbearance Qualifications Criteria

Using 85% of monthly surplus income (.85 × $600 = $510), Diego would be able to cure his arrearages within four months ($1,800 ÷ $510 = 3.5). Because his surplus income exceeds 15% of net monthly income and 85% of surplus income is sufficient to cure their default within six months, Diego is therefore eligible only for a six-month formal forbearance.

ELIZABETH: Well, Diego, with your monthly surplus income, you would be able to catch up on your mortgage within four months.

DIEGO: I am glad to know what I should expect. What about the other programs, like the Special Forbearance and FHA-HAMP?

ELIZABETH: Lenders would not be able to consider other FHA options for homeowners without a verifiable income reduction or expense increase. Also, because you can cure the default within six months, you meet the criteria for the first available option, so your lender would not continue with the process. Your priority now is to work with your servicer to come to an agreement on a Forbearance Plan.

DIEGO: Oh, ok. I don't want to waste my time applying for options when I do not meet the criteria. What if the servicer will not consider me for any loss mitigation options?

ELIZABETH: In that case, we can contact the FHA National Servicing Center, which works with FHA homeowners and their lenders to find creative solutions to avoid foreclosure.

Elizabeth and Diego then begin to work on what's needed before contacting his servicer.

## Knowledge Check 3

Which statement about the eligibility requirements of the FHA HAMP Loan Modification is **false**?

A. Mortgage must be in default or imminent default but not in foreclosure.
B. At least one borrower must have continuous income.
C. Borrower must demonstrate minimum surplus income amount.
D. Property must be and must remain the borrower's primary residence.

## Knowledge Check 4

The following are benefits of different FHA loss mitigation programs. Match the program benefit with the corresponding program.

A. Assists borrowers who do not have a verifiable loss of income or increase in living expenses.
B. Suspends mortgage payments or allows for partial payments while borrower is unemployed.
C. Can combine a loan modification and partial claim to bring the mortgage current.

___ 1. Special Forbearance - Unemployment Agreement

___ 2. Informal/Formal Forbearance

___ 3. FHA-HAMP Loan Modification

# National Loan Modification Scam Alert Campaign

## Identifying Loan Modification Scams

Often, homeowners facing foreclosure are approached by companies that claim they will get the homeowner's loan modified for them for a fee. These companies often disappear with a homeowner's money without ever contacting the servicer.

Loan modification scams were rampant during the foreclosure crisis, and many homeowners fell victim to them, putting them in an even worse financial situation. Because scammers will always be around, counselors can help clients be aware of what to look out for and where they can report suspicious activity.

When Elizabeth and Diego meet for their second appointment, Diego brings some documents that had been mailed to him that appeared to modify his mortgage with excellent new terms. Let's listen in on their session.

DIEGO: A few days ago I received this loan modification approval notice in the mail. It seems too good to be true, but I really like the monthly payment that it shows.

ELIZABETH: It probably is too good to be true. Let's look at it together.

Franklin, Peavy and Associates
P.O. Box 2349
Dover, DE 19906

ATTN: Diego Smith
123 Main Street
Glendale, CA 91203

***** LOAN MODIFICATION APPROVAL NOTICE *****

Dear Mr. Smith:

Congratulations! This letter serves to notify you that your eligibility is guaranteed for a loan modification that will lower your monthly payments significantly. We look forward to discussing this generous offer with you. Current mortgage records show:

| | |
|---|---|
| Current Principal Amount: | $189,230.65 |
| Current Interest Rate: | 4.76% |
| Current Monthly Principal and Interest Payment: | $988.26 |
| Current Monthly Mortgage Insurance: | $68.95 |
| Current Monthly Payment: | $1,057.21 |

Call today to modify your loan into these terms:

| | |
|---|---|
| Modified Principal Amount: | $189,230.65 |
| Modified Interest Rate: | 2.98% |
| New Monthly Principal and Interest Payment: | $795.76 |
| New Monthly Mortgage Insurance: | $0.00 |
| **Monthly Savings** | **$261.45** |

Unfortunately this offer won't be available for long, as interest rates change daily. I strongly encourage you to call today to get locked-in for this modification. **Then think about how you'll spend that extra $261.45 every month!**

***** CALL NOW!! LOAN MODIFICATION DEPARTMENT**
**1-877-555-5555 *****

Sincerely,

Franklin, Peavy and Associates

ELIZABETH: Those are some great mortgage terms! But I've never heard of that company. Did you call them?

DIEGO: I did. I was curious. But I didn't do anything else. They said they would negotiate with my lender, and there would be some fees that I had to pay up front. They said a modification was guaranteed and that I should make all my mortgage payments to them until it is finalized.

ELIZABETH: It is good that you didn't sign up with them, because this sounds like a common scam. They would have pocketed your money and never talked to your servicer.

HUD approved Housing Counseling Agencies will never charge a fee for mortgage default counseling. Homeowners facing foreclosure do not have to pay for counseling, so this is certainly a sign of a scam.

The HUD's Loan Modification Scam Alert Campaign is directed to homeowners who might be looking for help in meeting their mortgage payments. HUD aims to help American homeowners and empower them with the knowledge to protect themselves from scammers and to report any signs of scam activity. The following are some situations that could be signs of scam.

### Signs of Scams

A company/person:

- Asks for a fee in advance to work with your lender to modify, refinance, or reinstate your mortgage.
- Guarantees they can stop a foreclosure or get your loan modified.
- Advises you to stop paying your mortgage company and pay them instead.
- Pressures you to sign over the deed to your home or sign any paperwork that you haven't had a chance to read and you don't fully understand.
- Claims to offer "government-approved" or "official government" loan modifications.
- Asks you to release personal financial information online or over the phone, but you do not know the company/person.
- Offers to help modify your mortgage either directly, through advertising, or by other means such as a flyer.
- Asks you to surrender the title of your home with the understanding that you can continue living in the property as a renter and have the option to repurchase your home in the next few years.

Diego's letter shows one example of a scam. Let's take a look at another example.

Betty, a homeowner in default on her mortgage, received a call from a company representative claiming to provide mortgage relief. The representative informed Betty that he could stop the foreclosure process by contacting her servicer to make a payment arrangement. He instructed her to stop any mortgage payments and make payments to his company instead, explaining that these funds would help with the payment negotiation. Betty agreed and was immediately relieved to see that the foreclosure process did not continue. However, when the process later began again, she learned that the representative filed bankruptcy in her name to delay foreclosure before disappearing with her money. By this point, Betty's servicer had already started the foreclosure process, and it was too late to negotiate a retention option. In addition to losing her home, the bankruptcy and foreclosure remained on her credit report for years.

DIEGO: I didn't realize people were out there doing this.

ELIZABETH: It's unfortunate, and they're making money, because they target people in financial trouble and prey on them. If it's ok with you, we'll report this to a couple of federal agencies that track activities like this and take action when possible.

DIEGO: Absolutely.

## Reporting Loan Modification Scams

Elizabeth and Diego report the scammer by:

1. Calling the Homeowner's Hope Hotline at 1-888-995-HOPE (4673).
2. Visiting Consumerfinance.gov/complaint/
3. Calling the Federal Trade Commission (FTC) at 1-877-FTC-HELP (1-877-382-4357).
4. Calling the state's Attorney General office.
5. Calling the HUD Office of the Inspector General Hotline at 1-800-347-3735 since Diego has a FHA mortgage.

When they do this, they also find out the company that sent Diego the letter is already in some databases. It is good practice for counselors to help clients report scams so that action can be taken against the scammers.

## Knowledge Check 5

Anthony received a letter regarding modifying his mortgage in the mail, and he knew it was from a scammer. To which of the following entities should he report this activity?

A. Federal Trade Commission
B. Homeowners Hope Hotline
C. Consumer Financial Protection Bureau
D. All of the above

## Knowledge Check 6

Determine whether the characteristics listed below indicate loan modification scams. Label your responses as "A" if they represent aspects of a scam or "B" if they do not.

___ 1. Borrower receives a letter from his servicer discussing possible workout options

___ 2. Borrower receives a call from a lending company that says they will get her a modification for $1,000

___ 3. Loan modification company guarantees they can get a borrower a modification

___ 4. Borrower receives letter from a relief refinance program informing him he may qualify for refinancing

___ 5. Borrower receives a call from a company she's never heard of about a loan modification and is asked for her Social Security number over the phone

## Summary

In this module, you learned to:

1. Apply knowledge of programs and options for loan modification, refinance, or principal reduction when assessing a client's circumstances for foreclosure prevention options.
2. Demonstrate knowledge of the necessary forms and requirements for a mortgage lender loss mitigation package.
3. Evaluate a client's information to discuss appropriate loss mitigation options for an FHA-insured loan.
4. Apply knowledge of mortgage default scams to describe ways to avoid these scams and where to report being a scam victim.

# Appendix

## Knowledge Check Answer Key

1. **(A) in default / in good standing**

   Incorrect answers: (B) in good standing / in default; (C) with GSE loans / with non-GSE loans; and (D) with non-GSE loans / with GSE loans

2. **(D) Information on amounts paid for child care**

   This is not a required piece of financial information.

   Incorrect answers: (A) Two most recent bank statements, (B) Utility bill showing homeowner name and property address, and (C) Last two years of tax returns

3. **(C) Borrower must demonstrate minimum surplus income amount.**

   Borrower must demonstrate that income is insufficient to cure arrears within six months.

   Incorrect answers: (A) Mortgage is in default or imminent default but not in foreclosure, (B) At least one borrower has continuous income, and (D) Property must be and must remain the borrower's primary residence—These are eligibility requirements.

4. **Correct matched items:**

   (B) Suspends mortgage payments or allows for partial payments while borrower is unemployed: 1. Special Forbearance - Unemployment Agreement

   (A) Assists borrowers who do not have a verifiable loss of income or increase in living expenses: 2. Informal/Formal Forbearance

   (C) Can combine a loan modification and partial claim to bring the mortgage current: 3. FHA-HAMP Loan Modification

5. **(D) All of the above**

   Scams should be reported to each of these entities to ensure documentation is thorough.

   Incorrect answers: (A) Federal Trade Commission, (B) Homeowners Hope Hotline, (C) Consumer Financial Protection Bureau—Scams should be reported here and other places as well.

6. **Correct matched items:**

| (A) Aspects of a scam | (B) Not aspects of a scam |
|---|---|
| Borrower receives a call from a lending company that says they will get her a modification for $1,000 | Borrower receives a letter from his servicer discussing possible workout options |
| Loan modification company guarantees they can get a borrower a modification | Borrower receives letter from a relief refinance program informing him he may qualify for refinancing |
| Borrower receives a call from a company she;s never heard of, about a loan modification and is asked for her Social Security Number. | |

## Resources

### CFPB Mortgage Consumer Tool

www.consumerfinance.gov/consumer-tools/mortgages/

### Fannie Mae/Freddie Mac Uniform Borrower Assistance Form 710

https://guide.freddiemac.com/ci/okcsFattach/get/1001328_5

### Freddie Mac Flex Modification Reference Guide

https://sf.freddiemac.com/content/_assets/resources/pdf/other/flex_mod_ref_guide.pdf

### FDIC Brochure on Foreclosure Rescue and Loan Modification

www.fdic.gov/consumers/loans/prevention/rescue/images/rescue.pdf

### FHA Single Family Housing Policy Handbook 4000.1

https://www.hud.gov/sites/dfiles/OCHCO/documents/4000.1hsgh-080923.pdf

### Loan Scam Tips

www.neighborworks.org/Homes-Finances/Home-Finance-Tips/Loan-Scam-Tips

### Making Home Affordable

www.makinghomeaffordable.gov

### Report a Loan Modification Scam

Consumerfinance.gov/complaint/

### Loss Mitigation Policy & Guidance

https://www.hud.gov/program_offices/housing/sfh/nsc/lossmit

### Mortgagee Letters

https://www.hud.gov/program_offices/administration/hudclips/letters/mortgagee

## SAMPLE SCAMMER LOAN MODIFICATION APPROVAL FORM

Franklin, Peavy and Associates
P.O. Box 2349
Dover, DE 19906

ATTN: Diego Smith
123 Main Street
Glendale, CA 91203

***** LOAN MODIFICATION APPROVAL NOTICE *****

Dear Mr. Smith:

Congratulations! This letter serves to notify you that your eligibility is guaranteed for a loan modification that will lower your monthly payments significantly. We look forward to discussing this generous offer with you. Current mortgage records show:

| | |
|---|---|
| Current Principal Amount: | $189,230.65 |
| Current Interest Rate: | 4.76% |
| Current Monthly Principal and Interest Payment: | $988.26 |
| Current Monthly Mortgage Insurance: | $68.95 |
| Current Monthly Payment: | $1,057.21 |

Call today to modify your loan into these terms:

| | |
|---|---|
| Modified Principal Amount: | $189,230.65 |
| Modified Interest Rate: | 2.98% |
| New Monthly Principal and Interest Payment: | $795.76 |
| New Monthly Mortgage Insurance: | $0.00 |
| **Monthly Savings** | **$261.45** |

Unfortunately this offer won't be available for long, as interest rates change daily. I strongly encourage you to call today to get locked-in for this modification. **Then think about how you'll spend that extra $261.45 every month!**

***** CALL NOW!! LOAN MODIFICATION DEPARTMENT**
**1-877-555-5555 *****

Sincerely,

Franklin, Peavy and Associates