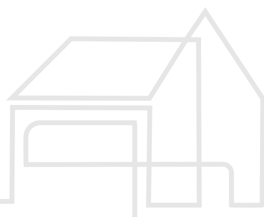
I. WHAT IS A LOAN MODIFICATION AND DO I QUALIFY?

Description of a Loan Modification

A loan modification is a restructuring of your current loan repayment period (term), interest rate, or other provision of your home loan. Occasionally, some of the principal balance of your existing loan may be forgiven and/or your loan term could be extended. You may have also heard the term “forbearance plan,” which is a restructuring of or postponement of payments. New loan terms under a loan modification or forbearance plan are meant to provide you with an opportunity to stay in your home while making affordable payments for the life of the loan. They are tools to help you avoid foreclosure if you are willing to make payments and have the income to sustain affordable payments. For purposes of this guide, a forbearance plan and a loan modification are synonymous.

Do I Qualify for a Loan Modification?

- You must be able to substantiate consistent and sufficient income to cover your new payments. If you do not have consistent income to be able to make the new payment under the loan modification, your request will likely be denied. A new proposed monthly payment on a loan modification (including your property taxes and insurance) should be about 31% or less of your monthly income.
- You cannot currently be in a bankruptcy proceeding (unless otherwise advised by your bankruptcy attorney).
- If the home is not your primary residence, your loan modification request will likely be denied.



Alternatives

- Request a **forbearance plan** from your mortgage lender. This program is a formal, *temporary*, written agreement with your mortgage lender designed to temporarily stop foreclosure proceedings. It is not a complete loan modification and is usually used when your inability to make payments is temporary, such as when you sustain a major illness or injury.

- Consider increasing your income by taking on a **second job.**

- Consult with a **bankruptcy** attorney to understand all of your options.

- Speak to a local real estate agent regarding a **short sale**. In a short sale, an arrangement is negotiated with your mortgage lender to sell your home for less than you owe on the loan. Understand that a short sale can have negative consequences. Other than selling your home and satisfying the loan, there are no benefits to your credit for obtaining a short sale. When you attempt to purchase another home after obtaining a short sale, the mortgage underwriter for the new loan will likely treat the short sale the same as a foreclosure. Multiple mortgages on your property could prevent a short sale.

- A **deed in lieu of foreclosure** can be an option in the event you have decided you can no longer afford your home and do not want to go through marketing efforts or foreclosure. With a deed in lieu of foreclosure, you ask your lender if they will take title to your property, subject to existing claims or liens, instead of foreclosing. Note that the lender may decide a foreclosure is a better option for them and reject your offer to issue a deed in lieu of foreclosure.