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DIY GUIDE TO MODIFY YOUR LOAN IN 3 STEPS

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WHAT IS A LOAN MODIFICATION

A loan modification is a change to your mortgage terms, designed to make your payments more affordable during times of financial hardship:

1. **Job Loss**
2. **Huge Medical Expenses**
3. **Increased Expenses**
4. **Adjustable-Rate Reset**
5. **Loss of a Family Member**
6. **Etc.**

A Loan Modification could save your home from foreclosure and protect your credit score during these tough times.

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WHAT IS A LOAN MODIFICATION

Here's what can happen with a loan modification...

1.Cut the interest rate: Your lender can lower the interest rate on your loan, which reduces the amount you pay every month.

2.Extend the repayment period: Your lender can make the loan last longer (for example, changing a 30-year loan to a 40-year loan). This means you pay less each month, but you'll end up paying for a longer time and will pay more in interest over the life of the loan.

3.Reduce the principal: Sometimes the lender might reduce the amount you owe on the loan. This can significantly lower your payments, but be aware that this forgiven debt may be considered taxable income.

4.Convert to a fixed-rate loan from an adjustable rate: If you have a loan where the interest rate changes (adjustable rate), your payments can vary a lot. Switching to a fixed rate stabilizes your payments by setting one interest rate that won't change over the remainder of the loan term.

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GATHER YOUR INFORMATION

Start by collecting all the documents that paint a picture of your financial situation.
You'll need:

1.Financial Statements: This includes bank statements, pay stubs, and any other documents that show your current financial status.

2.Tax Returns: Gather your last two years of tax returns to show your earnings and taxes paid.

3.Hardship Letter: Write a detailed explanation of your hardship, why you need the loan modification, and how you plan to keep up with the new payment terms.

4.Expense List: Detail all of your monthly expenses to illustrate why your current mortgage payment is unsustainable.



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Understand whether you need a short-term fix or a long-term solution to your financial hardship. Know the details of what you're asking for—be it a reduced interest rate, an extended loan term, or a different type of relief.

See the sample Hardship Letter Below:



PLAN YOUR CASE

[Your Full Name]
[Your Address]
[Email Address]
[Phone Number]
[Today's Date]
[Loan Number]

XYZ Lender
[XYZ Lender Address]

Attention: Loss Mitigation Department

Subject: Request for Mortgage Assistance – [Your Full Name], Loan Number [Your Loan Number]

Dear Sir/Madam,

I am writing this letter to explain the unfortunate set of circumstances that have caused my mortgage payments to become delinquent. I fully understand my financial responsibilities and am deeply saddened to find myself in this position, but I have recently lost my job and am actively searching for employment. It was always my intention to fulfill my obligations, and I am reaching out in the hope of finding a solution that will allow me to do so in the future.

Since [insert job loss date], I have been without a job, which has severely impacted my financial situation. My unemployment benefits have not been sufficient to cover my monthly expenses, and, despite cutting back on non-essential expenses and actively job hunting, I have fallen behind on my payments. Please understand that this is not a reflection of my willingness to pay, but rather a reflection of my current inability to do so.

I am determined to keep my home and avoid foreclosure. I am proactively seeking a new job, and I am optimistic about my prospects. In the interim, I am requesting assistance to lower my monthly payment to a more manageable amount. A reduced interest rate or an extension of the loan term could significantly help reduce my financial burden.

I appreciate that XYZ Lender has always been a partner to homeowners, helping them to navigate through difficult times. Here is how I plan to get back on track:

Rigorous Job Search: I am dedicating my time to securing new employment and have registered with multiple recruitment agencies.
Strict Budgeting: I have created a stringent budget plan to ensure that all available funds are allocated towards essential expenses and loan repayments.
Financial Counseling: I am willing to undergo financial counseling to manage my finances more effectively.
I humbly ask for your help to modify my loan. I am willing to provide all necessary documentation to demonstrate my financial hardship and to work with you to find a solution that is mutually beneficial.

Please consider my application for a loan modification. I am hopeful for an opportunity to regain my financial footing and continue honoring the agreement between us. I would greatly appreciate any options you can provide for lowering my monthly payments to avoid further delinquency.

Thank you for your time and understanding in this matter. I await your positive response and am willing to discuss this with you at your earliest convenience.

Sincerely,

[Your Full Name]



3 CONTACT YOUR SERVICER

Reach out to your mortgage servicer:

1.Initial Contact: Call your servicer, stating clearly that you are interested in applying for a loan modification. Be polite but persistent.

2.Application Process: Follow their process, which usually involves filling out a list of forms and submitting your documents.

3.Follow Up: Lenders are inherently bad at following up. We recommend you follow up every 2-3 days to check on the progress of your application.

4.Appeal: If you're not approved and you believe the decision was made in error, or if your circumstances have changed, request a second review—especially if you're within the critical three-month period before a foreclosure sale.

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1.Keep Copies: Save copies of all documents you send to your lender.

2.Stay Organized: Keep a log of all communications with your lender, including dates, times, and the names of any representatives you speak to.

3.Be Honest: Present an accurate picture of your finances. Misrepresenting your situation can lead to more trouble.

4.Patience Is Key: The process can be slow. Stay on top of it, but be prepared for it to take time.

5.Professional Advice: Consider seeking help from a HUD-approved housing counselor for free guidance on your options.

Following these steps can significantly increase your chances of getting your loan modification approved and stabilizing your financial situation.

IMPORTANT TIPS FOR APPLYING

YOU'RE APPROVED!! WHAT NOW?

After You Get Approved for a Modification, You Should Ask:

1.Is this a permanent change or just for a short period?
2.What will my new monthly payment be?

You should also be cautious about:

1.Understanding the long-term cost. Sometimes modifications that lower your payments now can lead to paying more in the long run.

2.Avoiding modifications that might have low payments for a few years but then a significant increase after that (a balloon payment).

3.Modification Scams: **NEVER WIRE FUNDS TO ANYONE CLAIMING THEY CAN GET YOUR LOAN MODIFIED FOR AN UPFRONT PAYMENT**

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LOAN MODIFICATION CHECKLIST

The next page outlines everything you'll need to round-up in order to submit a full and complete application.

Make sure you submit everything all at once. Otherwise your application is at risk of be tossed out!

LOAN MODIFICATION CHECKLIST

- [ ] *1. Financial Documents:*
  - *a. Bank statements*
  - *b. Pay stubs*
  - *c. Any other proof of income*
- [ ] *2. Tax Information:*
  - *a. 2 years of tax returns*
  - *b. IRS Form 4506-T if required*
- [ ] *3. Hardship Letter:*
  - *a. A personal letter detailing the circumstances of your hardship*
- [ ] *4. Expense Details:*
  - *a. A comprehensive list of your monthly expenses*
- [ ] *5. Loan Information:*
  - *a. The current terms of your mortgage, including balance and interest rate*
- [ ] *6.Contact Details:*
  - *a. Information for your mortgage servicer and any counselors or attorneys assisting you.*
- [ ] *7. Case Plan:*
  - *a. A clear outline of what you're seeking, whether it's a temporary or permanent modification.*

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