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Housing and Foreclosure for Military Families

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Webinar Objectives:

- Understand various foreclosure prevention options
- Identify the appropriate waterfall process when applying options for foreclosure prevention
- Understanding the role of a HUD-approved counselor within this process
- Typical paperwork a client will need to gather when working with the financial institution.



Understand Why People are Defaulting

- Borrowers are over extended financially
- Types of financing and borrowers not understanding terms
- Job loss, retirement, reduced hours, etc.
- Illness, injury, death in family
- Increased property taxes or insurance
- Private Mortgage Insurance (PMI) costs
- Homeowner association dues
- Divorce, separation, change in the family situation
- Upside down LTV



Being Underwater

- As of late 2011, approximately 29% of U.S. homeowners, who have a mortgage, are underwater
 - Note this varies from state to state
 - Florida – 45%; Nevada – 60%; Arizona – 49%
- They owe more on their homes than what they are currently worth...



TO AUDIENCE

- How many of you know someone who is currently underwater?



Being Underwater

- Not a very good place to be...
 - Keep making payments but losing money, very frustrating
 - Watching neighbors walk away from homes furthering the lowered values (strategic default)
 - Unable to make payments





Foreclosure Prevention Solutions

Temporary Solutions

If the client's situation is a temporary setback:

- Reinstatement
- Special forbearance
- Grace period or repayment plan
- Payment forgiveness



Longer Term Solutions

- Loan Modification
 - Renegotiation of contract
- Claim Advance
 - Partial
 - Advanced
- Refinancing



Making Homes Affordable

- Visit www.makinghomeaffordable.gov for more information.
 1. Home Affordable Refinancing
 2. Home Affordable Modification
 3. Second Lien Modification Program (2MP)
 4. Home Affordable Foreclosure Alternatives



Home Affordable Refinance Program (HARP)

- May be Eligible if:
 - Must be a Fannie Mae or Freddie Mac secured loan;
 - Must be current on the loan (no delinquencies in last 6 months, no more than 30 days late in last 12 months);
 - Owe more than 80% of home's current value
 - There is no maximum LTV ratio for fixed, ARM LTV will be limited to 105%;
 - Income can support new mortgage payments;
 - Refinance improves long term affordability or stability of loan;
 - Closing costs can be added to loan.



Home Affordable Refinance Program (HARP)

- Open Access:
 - If borrower is unable to refinance the loan, client can shop for another lender participating in the HARP program;
 - Closing costs may be required up front;
 - Borrower has to meet new loan lending guidelines including credit qualifications.



FHA Short Refinance Opportunity

For Underwater Homeowners

- To offer to non-FHA homeowners who are “underwater” a Short Refinance option to help them overcome the loss of equity in their home.
- Participation for servicer is voluntary and they will be required to reduce the amount you owe on your first mortgage to no more than 97.75% of your home’s current value.



FHA Short Refinance Opportunity

For Underwater Homeowners

Homeowners are eligible if:

- The mortgage is not owned or guaranteed by Fannie Mae, Freddie Mac, FHA, VA or USDA.
- Borrower owes more than the home is worth.
- Borrower is current on their mortgage payments.
- Borrower occupies the house as their primary residence.



FHA Short Refinance Opportunity

For Underwater Homeowners

Homeowners are eligible if:

- Must qualify for the new loan under standard FHA underwriting requirements.
- Their total debt does not exceed 55% of their monthly gross income.
- Borrower must not have been convicted within the last 10 years of felony larceny, theft, fraud or forgery, money laundering or tax evasion, in connection with a mortgage or real estate transaction.



Home Affordable Modification Program (HAMP)

- Modification Qualifications:
 - Be an owner-occupant in a one to four unit property,
 - Have a loan that was originated on or before January 1, 2009
 - Have an unpaid principal balance that is equal to or less than \$729,750 for one unit properties*
 - Have a mortgage payment (PITI & HOA) that is more than 31% of your gross monthly income
 - Have a mortgage payment that is not affordable, perhaps because of a significant change in income or expenses.



Home Affordable Modification Program (HAMP)

- Qualified Homeowners must complete a trial period of three or four months
- Mortgage servicer can:
 - Lower the interest rate to as low as two percent,
 - Extend the mortgage term up to 40 years, or
 - Forbear (defer) payments on the principal.
 - A portion of the principal can also be forgiven, although that is optional on the part of the servicer.



Modification Water Fall System

- 1. Capitalization of Arrearages:** Accrued interest, real estate taxes and other arrearages (excluding late fees) may be capitalized and added to the principal balance of the mortgage loan.
- 2. Interest Rate Reduction:** First the interest rate will be reduced (subject to a floor of 2%) in increments of 0.125% in order to bring the monthly payment as close to the target Front-End DTI level as possible without going below 31%.

Modification Water Fall System

- 3. Reamortization of Principal:** Next, if the interest rate reduction has not achieved the target Front-End DTI, the servicer shall extend the term of the mortgage loan or the length of amortization, as applicable, to up to 40 years in order to reach the target Front-End DTI ratio.
- 4. Principal Forbearance:** Next, if the interest rate reduction and reamortization have not achieved the target Front-End DTI, the servicers shall set aside principal to reach the target Front-End DTI.
- 5. Principal Forgiveness:** While not a requirement under the standard waterfall, servicers have the option to forgive principal at any point in the waterfall.

Home Affordable Modification Program (HAMP)

Bankruptcy???

- Borrowers in active bankruptcy can be considered for HAMP modification upon request.
- Every case is different please have client seek legal counsel regarding the bankruptcy and house issue.





What if borrower owes more than their home is worth?

HAMP-Principal Reductions Alternative

- Eligibility for PRA:
- Same eligible requirements for the HAMP;
- Be significantly underwater;
- Your mortgage is not owned or guaranteed by Fannie Mae or Freddie Mac.



HAMP-Principal Reductions Alternative

Passive loss- Borrower bought home, paid mortgage, refinance to lower interest rate or to fixed their interest rate. Borrower did nothing to cause the loss of the value of the property.

Aggressive loss- Borrower bought home and refinance to take equity from their home to use it for another purpose like buy a second home, a boat, car, RV, motorcycle, take a vacation etc..... Borrower aggression cause the loss.



HAMP-Principal Reductions Alternative

- Voluntary for servicers, but they are being offered incentives to allow principal write-downs through HAMP Modifications;
- Servicers will initially forgive some or all of the principal balance over 115% LTV or as needed to bring the borrower's payment to 31% of income.

Let's talk about how it works...



HAMP-Principal Reductions Alternative

Servicers forgive in three equal amounts over three years but only if the homeowner remains current on their payments.

For example: Mr. Smith is underwater for \$75,000 and his servicer agrees to forgive this amount ...

| FORBEAR AMOUNT \$75,000 | |
|----------------------------|-----------------|
| First Year | \$25,000 |
| Second Year | \$25,000 |
| Third Year | \$25,000 |

What if borrower is unemployed?

- Hardest Hit Program
- Home Affordable Unemployment Program





What About 2nd Mortgages?

Second Lien Modification Program (2MP)

- Offers homeowners a way to lower payments on their second mortgage
- There's an incentive for modifying a second lien for homeowners, servicers and investors
- Servicers and investors may also receive an incentive for extinguishing a second lien



Second Lien Modification Program (2MP)

Eligibility:

- The corresponding first lien has been modified under HAMP
- The second lien servicer is participating;
- It was originated on or before January 1, 2009;
- No unpaid principal balance (at consideration for the modification)
 - of less than \$5,000 or
 - a pre-modification scheduled monthly payment of less than \$100;
- It has not yet been modified under 2MP;
- You have not missed three consecutive monthly payments on your HAMP modification.

Treasury/FHA Second Lien Program (FHA2LP)

- Mortgage servicer of your first mortgage agrees to participate in FHA Short Refinance;
- Your second mortgage agrees to participate;
- The total amount of your mortgage debt after the refinance cannot exceed 115% of your home's current value.



Treasury/FHA Second Lien Program (FHA2LP)

- You may be eligible to apply if you meet all of the following:
 - You are eligible for FHA Short Refinance.
 - You obtained your mortgage on or before January 1, 2009.
 - You must not have been convicted within the last 10 years of felony larceny, theft, fraud or forgery, money laundering or tax evasion, in connection with a mortgage or real estate transaction.



Last Resort Options.....

Do NOT Abandon the Home!

Home Affordable Foreclosure Alternative (HAFA)

- Offers homeowners two options: short sale or deed-in-lieu of foreclosure.
- With these options, under HAFA, a homeowner leaves their home to transition to more affordable housing and alleviate the mortgage debt they owe.



HAFA

Options are available for homeowners who:

1. Do not qualify for a trial mortgage modification under the Making Home Affordable Program;
2. Do not successfully complete the trial period for their modification;
3. Miss at least two consecutive payments during their modification period; or
4. Request a short sale or deed-in-lieu of foreclosure.

HAFA Short Sale

- Unlike conventional short sales, a HAFA short sale completely releases borrower from your mortgage debt after selling the property.
 - This means borrower will no longer be responsible for the amount that falls "short" of the amount still owed. The deficiency is guaranteed to be waived by the servicer.
- The mortgage company works with borrower to determine an acceptable sale price.
- HAFA has a less negative effect on the borrower's credit score than foreclosure or conventional short sales.
- When the borrower closes, HAFA provides \$3,000 in relocation assistance.
- Any amount the lender forgives might be considered taxable income by the IRS.



Deed-in-Lieu of Foreclosure

- Voluntarily “give back” the house to the lender by transferring the title;
- Borrower loses any claims to the home and will need to vacate the property;
- Lender generally waive rights to collect outstanding mortgage debt.
- Any amount the lender forgives might be considered taxable income by the IRS.





If the lender offers the borrower options.... GET IT IN WRITING!



Working With a HUD-Counselor

Working with a HUD-approved Counselor

- Evaluate borrower's current situation and ability to repay;
- Establish a monthly budget;
- Evaluate all options and explain each one;
- Negotiate or coach borrower on how to negotiate options with the lender;
- Help borrower fill out any paper work the lender requires for work out plan;
- Follow-up with borrower and lender as necessary.



Working with a HUD-approved Counselor

- Will need to Know:
 - If borrower wants to keep their home
 - How long the situation will last
 - Their financial situation
 - Current property & mortgage conditions



Paperwork Needed for the Appointment:

- Last two months pay stubs or PLS;
- W-2 and tax returns from past 2 years;
- Last two months bank statements;
- Most recent mortgage statement showing a breakdown of PITI, mortgage and note documents and HUD-1;
- Copies of bills (ie. Electric, cable, credit, etc.);
- Hardship Letter.



When Talking The Lender

- Know exactly what borrower needs to help them keep their home;
- Identify the reasons for the default/hardship;
- Have a current budget ready;
- Keep a log of every contact made;
- Have most recent paystubs, bank statements, IRS tax returns and other related information.



Know Who You Are Talking To:

- Loan Servicer
- Collections Department
- Loss Mitigation Department
- Foreclosure Department



Hardship Letter

- State the situation, what is the hardship that is causing borrower to fall behind;
- Be as specific as possible (amt lost, dates, reference any applicable communication from lender);
- What efforts has the borrower made to adjust expenses;
- Be humble and communicate that borrower wants to save their home.



Watch Out for Foreclosure Scams!

- Phony Counseling or Phantom Help
- Bait-and-Switch
- Rent-to-Buy Schemes
- Bankruptcy Foreclosure
- 1-866-9NO-SCAM
- Visit www.preventloanscams.org or Federal Trade Commission www.ftc.gov

Foreclosure Fraud Red Flags

- Guarantees to stop the foreclosure process – no matter what your circumstances;
- Instructs you not to contact your lender, lawyer, or credit or housing counselor;
- Collects a fee before providing you with any services;
- Accepts payment only by cashier's check or wire transfer;
- Encourages you to lease your home so you can buy it back over time;
- tells you to make your mortgage payments directly to it, rather than your lender.



Foreclosure Fraud Red Flags

- Tells you to transfer your property deed or
 - title to it;
- Offers to buy your house for cash at a fixed price that is not set by the housing market at the time of sale;
- Offers to fill out paperwork for you;
- Pressures you to sign paperwork you haven't had a chance to read thoroughly or that you don't understand.



Protecting Tenants at Foreclosure Act of 2009

- This law protects renter's interest (including Section 8 tenants) during a foreclosure process in one of two ways:
 - Renters with no lease or a month to month lease must be given at least 90 days notice before they are required to vacate the property.
 - If the tenant has a lease lasting longer than a month, the renter is permitted to remain in the home for the duration of the lease. Only after their lease expires can the evictions proceed. There is an exception made for buyers of the foreclosed property who intend to live in the home. For these cases, only 90-days notice must be given before breaking the lease.





Questions?

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