

Help for Homeowners

Foreclosure Avoidance Course Outline

I. Introduction -

Welcome to this **Help for Homeowners Class**. The course is sponsored by Project NOW, Rock Island Economic Growth Corporation (GROWTH), and QC DollarWise. Our agencies offer financial education, home purchase loans, rehabilitation loans, grants, homebuyer education, homeowner education, and technical assistance.

II. Qualifications –

GROWTH and Project NOW are HUD Designated Housing Counseling Agencies. Our staff and boards include trained and certified individuals who live in your community and many whom are homeowners themselves. Many of us can relate to your situation. We all go through trials and tribulations in our lives – and there is no need to feel badly about the situation you may be in. What is important is to learn as much as you can about resources and options you have so you can make the best decision possible for your situation.

III. Confidentiality –

Our agencies maintain confidential relationships with our participants. We only share demographic information (family size, income, etc.) when necessary for our programs and to compile data that will help us provide better information and services to more individuals and families. We never share personal information (name, address, phone number, etc.) with anyone.

We also ask that you all treat each other with the same respect and dignity. In order for this program to successfully assist you, we encourage open discussion of situations, and questions relating to your personal circumstances. We ask that the personal information of other participants be treated as “personal information” as nothing is shared about another’s personal situation outside of this forum.

IV. What we will cover Today -

In this session we will cover several areas to help you gain knowledge about your home, your loan, and how you can make educated decisions about your situation.

This course is not intended to address every individual’s specific circumstance, but is intended to provide a broad overview of terms, answer general questions, and give you additional resources for feeling confident that you can make informed decisions about your home and your future.

I. MAKE THE DECISION TO DO SOMETHING INSTEAD OF NOTHING.

By being here today, you have made that crucial first step – to do something instead of nothing! It's no secret that individuals and families such as yourself are feeling an incredible amount of pressure as a result of delinquencies, especially mortgage delinquencies.

There is no guilt or shame in being here today; it very easily could be a family member, neighbor, or myself in the same situation. These feelings are natural, but there are options that will allow you to take back some of the control over your situation. That is why this is the first step. You must first realize that:

- 1. You are not alone. Currently almost 1 in 3 Americans are being touched by foreclosure in one way or another.**
- 2. The circumstances that lead to your situation may not have been within your control.**
 - 72% of those seeking assistance are as a result of medical emergency, change in employment situation, divorce, or death of a spouse.
 - The circumstances that lead to your situation may not have been understood.
 - In the recent past there have been many forms of lending that were not completely understood by the borrower. (Variable interest rate loans, "no doc" income loans, balloon mortgages, interest only mortgages, etc.)
 - 53% of those seeking assistance said they could afford their original loan payment with little impact to their household budget, but variable interest rates are now making that payment unaffordable
- 3. Lack of communication with your lender will not make the problem go away; but may expedite their resolve to foreclose.**
 - Lenders are much more willing to work with you to save your home if you are willing to honestly communicate with them.
 - It is generally in the best interest of the lender to workout an option to help you remain in your home.

II. UNDERSTAND REAL ESTATE & FORECLOSURE LINGO

You may feel like talking to your lender and reading the letters received from your lender is in a language that you don't understand. Often a borrower fails to ask what something means for fear that they will seem like they are not ready for homeownership. "I'm sure that I should know what that means, so I'll just go along with it because I'm sure my loan officer has my best interest at heart." – more than ever loan officers/originators want to or have to close loans.

Let's cover some items in your basic dictionary:

- **Assignment of Deed of Trust or Mortgage:** Assumption by a purchaser of liability for payment of an existing mortgage, or deed of trust. May or may not be accompanied by a release of liability of the original borrower.
- **DTI or Debt to Income ratio:** there are two main DTI ratios utilized.
Front End Ratio: This is your total monthly housing expenses divided by your total monthly income. For example, if your monthly income is \$3,800 and your total housing expenses (Principal, Interest, Taxes and Insurance) was \$1,200 your front end DTI would be 31.5%. Generally it is recommended that your "front end" ratio is below 30%.
Back End Ratio: This is your total monthly recurring expenses divided by your total income. For example If your total monthly income were 3,800 and your total monthly recurring expenses (mortgage, car payment, credit cards, child care, etc.) was 1,750 your back end DTI or would be 46%. Generally it is recommended that your "back end" DTI is below 42%.
- **Declaration of Default:** a document instructing the trustee (usually appointed by a bank) to prepare and record a Notice of Default (NOD), and if necessary, to sell the property at auction in order to satisfy the unpaid obligation or lien.
- **Deed In Lieu:** Completion of a transfer of title in the mortgaged property to the lender with the approval of the borrower. (Giving the house back)
- **Deed of Trust:** A type of security instrument where the borrower conveys the property's title to a third party (trustee) to be held "in trust" as security for the note.
- **Default:** The terms of default are described in the Mortgage. This can include liens, failure to pay property taxes or insurance (if not escrowed), late payments, failure to maintain the property or complete repairs when necessary (ie:a faulty roof), etc. To determine the terms of default and your remedies – read your mortgage.
- **Escrow:** Escrow is the amount that your lender sometimes collects if they are responsible for paying taxes and insurance. Generally this is the annual amount of taxes+ the annual amount of insurance /11. 11 because your lender is allowed to hold an additional month in reserve.
- **Forbearance:** This option is sometimes used in conjunction with the reinstatement. Here, your mortgage lender lets you reduce or suspend payments for a period of time, after which another option will be used to bring the loan current (such as reinstatement).

- **Foreclosure:** A legal procedure by which mortgaged property is sold, upon default, in order to satisfy a debt. Foreclosures generally are governed by state law, and rules may vary between States.
- **Full Reconveyance:** a document prepared by a trustee, when an obligation secured by a deed of trust, or mortgage, is paid back in full. Once recorded, this reconveyance eliminates the lien from the property's title.
- **Junior Lien:** a legal claim upon real property recorded subsequent to (after) another claim or legal obligation (for example a second mortgage or home improvement loan, a senior lien would have priority in most cases).
- **Lien:** a legal claim upon real property to occur after your mortgage. Examples in Iowa include sewer bills that were not paid, or assessed amounts for lawn mowing, debris removal, or sidewalk repair.)
- **LTV or Loan to Value:** This is the amount of your mortgage divided by the value of your home. For example a house with a mortgage of \$70,000 with a value of \$100,000 has a 70% LTV or Loan to Value.
- **Modifying the Mortgage:** If you can make payments on your loan, but don't have enough money to bring your account current or you can't afford your current payment, your lender may be able to change the terms of your original loan to make the payments more affordable. Your loan could be permanently changed in one or more of the following ways:
 - (A) adding the missed payments to the existing loan balance;
 - (B) changing the interest rate, sometimes even by converting an adjustable rate into a fixed rate
 - (C) extending the number of years allowed for repayment.
- **Mortgage:** A conveyance of an interest in real property, given as security for the payment of a debt. An agreement between two parties: borrower and lender.
- **Partial Claim:** If you have mortgage insurance (PMI) on your mortgage loan, you may be able to obtain a one-time, interest-free loan from the mortgage guarantor that would help you bring the loan current. Your lender may assist you with this process.
- **PITI:** Your total monthly payment including escrow. Principal + Interest + Taxes + Insurance.
- **Publication Letter:** a letter, when signed by the beneficiary (lender), authorizing the trustee to prepare, publish and record the Notice of Trustees Sale (notice of auction).
- **Publication Period:** a period beginning at the expiration of the default period, and ending when the trustee's sale has been conducted. During the publication period, the Notice of Trustees Sale is published, posted and recorded.
- **Recession of Notice of Default:** After an amount in default has been cured, or paid-back, this document, when signed by the lender and recorded by the trustee, removes the burden of the previously recorded Notice of Default.

- **Reinstatement:** If your financial problems are temporary, and you think you'll be able to pay off the amount owed at a future date, then reinstatement might be a good way to stop foreclosure on your home. With this option, you and the lender agree on a future date in which you will pay off the amount owed (payments missed) as a lump sum.
- **Reinstatement Period:** The time period beginning when the Notice of Default is recorded, and ending five business days before the trustee's auction sale. The default may be cured, or paid-back, at any time during this period by paying all delinquent amounts, including the trustee's fees and costs.
- **Repayment Plans:** This is another option that may help you avoid foreclosure altogether. Here, you and the lender agree on a payment plan that basically takes the money owed from missed payments and spreads it out over future payments. Thus, this is another option for you if your financial problems are only temporary.
- **Sale:** Most mortgage lenders will agree to a specified period of time during which the homeowner (who can no longer afford to make payments) may try to sell the home. The key here is to find a real estate agent who specializes in pre-foreclosure quick sales, as you only have a limited time to sell the home before the lender moves forward with foreclosure.
- **Short Sale:** Sometimes a lender will accept an offer for purchase of your property for less than the amount owed to them. This is called a "short sale". In this case the lender will want assurances that either the value of the house is much less than the loan amount, or the house has been listed for a specified amount of time and has not sold.

III. REVIEW YOUR BUDGET AND LOOK AT YOUR ALTERNATIVES.

- Most Lenders will require a completed budget before communicating about a workout plan.
- Your budget is your tool, you need to be absolutely honest with yourself when completing your budget.
- Your budget helps you determine many things.
 - A realistic view of where your money goes.
 - Any non-critical items that you can cut down on or eliminate.
 - What you can afford for housing expenses now and if the foreclosure were to take place.
 - And, ultimately can you afford to keep your house?
- We will walk you step by step through the budget process, and provide attached forms for you to utilize on your own.
- You do not have to work with a HUD housing counseling agency; although it is generally recommended. Some counseling agencies do so at no cost to you.
- Review your budget and seriously consider if you could continue to make the payments if you were current now. If Not, a deed-in-lieu; short sale; or as a last resort allowing the foreclosure to occur may be your only alternatives. In this case, you want to:
 - Begin setting money aside. However the situation turns out you are going to need a place to live. You will need deposit, rent, utilities in your name, etc.
 - Work with a real estate agent to sell your home. If you can do this, generally a judgment will not be held against you following the sale.
 - Realize that it is unlikely that you will be able to purchase another home for 2 – 7 years.
- Gather documentation of your reason for delinquency. Examples include: a police report from an accident, bills from a medical procedure, etc. What you are doing here is substantiating your claim (with a budget to support it) that if you were not delinquent you would be able to make your regular monthly payment on time.
- Be realistic, you don't want to enter into a workout agreement with your lender that you won't be able to meet. If you are working with your loss mitigation department and they are offering only one alternative that you are not confident that you can meet, simple say "Thank you for your time" but I will need to seek other alternatives." Then the recommendation would be to consult with a housing counseling agency.

IV. BE PREPARED TO TALK TO YOUR LENDER OR SERVICER

When you call your lender, be sure to have your account information handy and be ready to give a summary of the financial problems you are having. You should also have recent income statements and your household budget with you. Be ready to provide a short explanation of why you are unable to make your mortgage payment. Did someone lose a job? Is there a medical emergency? Are you current on your loan but have not been able to refinance into better terms?

Be prepared for more than one conversation. Your lender may require that you complete a "loan work-out" package – you may not be eligible for help without it, so complete it as soon as you receive it.

Questions to ask:

1. How much time is the lender willing to give you to complete a work-out?
2. What are your obligations under the work-out package?
3. What are the specifics? Be sure to ask what is due and when.
4. Will a foreclosure sale of your property be put on hold while your lender looks at the possibility of a work-out package?

V. BEWARE OF SCAMS!

If you fall behind on your mortgage payments, it is very common to receive telephone calls, home visits, and direct mail from a foreclosure "rescue" service. Scam artists often target defendants named in public records. The scam artists usually assert that they are "foreclosure specialists" or "mortgage specialists," claiming they will save your home from foreclosure in exchange for a sum of money.

Unfortunately, many people pay the scam artist, but find out months later that the company has done nothing to stop the foreclosure, and the house is set to be sold at a sheriff's sale. Don't let this happen to you!

Watch out for handwritten notes that refer to the details of your situation, services telling you not to contact your mortgage servicer, services promising to save your house, and large deposits required upfront.

Tips to Avoid Foreclosure Rescue Scams

1. Contact your mortgage servicer as soon as you have trouble making payments. You may be able to negotiate a payment schedule.
2. Contact a HUD-approved housing counselor for assistance if you are receiving letters threatening foreclosure and are not yet in a lawsuit.
3. Contact an attorney if you have a pending lawsuit against you.
4. Be wary of any claim to stop foreclosure for a fee. Do not make a down payment upfront, and always ask for written information before you make a financial decision.
5. Never make your mortgage payments to anyone other than your mortgage servicer. If you can't pay, contact your servicer immediately to work out payment arrangements.
6. Take your time and never sign a contract under pressure. Consult a lawyer or trusted family member before you sign.
7. Get all promises in writing. Many scam artists make lofty verbal promises but never put them in writing. Always make sure oral agreements are included in a written contract; otherwise they are not guaranteed.
8. Check companies' reputations before doing business, by researching their reputations with the Better Business Bureau and the Illinois Attorney General's Office to see if other consumers have filed complaints against them.
9. Never sign away ownership of your home without consulting a lawyer. Be especially suspicious of offers to lease back your home, in order to buy it back over time, and beware of any home-sale contract in which you are not formally released from liability for your mortgage. Make sure you know the rights you are giving up and that you agree to give them up.
10. Don't sign anything with blank lines or spaces, as information could be added later without your knowledge and consent.
11. If you do not speak English, never use a "rescuer's" translator. Instead, insist on using your own translator.

VI. BE AWARE OF RESOURCES

- Making Home Affordable (Federal Plan).
 - Visit www.makinghomeaffordable.gov
 - Determine eligibility online
 - Loan Refinancing or Loan Modification options
 - Call 1-888-995-HOPE

- HUD Approved Housing Counseling Agencies
 - **Rock Island Economic Growth Corporation**
 - 309-788-6311
 - *Rock Island (city) residents only.*
 - www.liveri.com

 - **Project NOW***
 - 793-6391
 - *Henry, Rock Island, Mercer Counties*
 - www.projectnow.org

 - **Greenpath Debt Solutions**
 - 1-800-550-1961 or 309-788-6323

 - **United Neighbors**
 - 563-322-7363
 - www.unitedneighbors.com

 - **Neighborhood Housing Services of Davenport**
 - 1-563-324-1556
 - E-mail: B_Hayes-Upton@mvnhs.org
 - www.mvnhs.org

*** Agency is seeking certification as a HUD Approved Housing Counseling Agency, and is currently NeighborWorks and HUD Trained.*