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# Making Home Affordable: The Modification Option

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The Making Home Affordable program offers at-risk homeowners a chance to modify mortgages to avoid foreclosure on their homes.

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Making Home Affordable, the federal program aimed at aiding struggling homeowners, offers two options: refinancing and loan modification. A homeowner who is behind on mortgage payments and at risk of foreclosure could benefit from the modification option, which pays lenders to re-work loan terms and lower monthly payments.

Don't expect to breeze through the Making Home Affordable qualifying process. You'll need a lot of documentation and patience. With so many homeowners looking for help, lenders are scrambling to keep up with demand. To speed up the loan process, have your paperwork in order before applying for a loan modification.

## Qualifying for a loan modification

Making Home Affordable's modification option

([http://www.makinghomeaffordable.gov/modification\\_eligibility.html](http://www.makinghomeaffordable.gov/modification_eligibility.html)) is known as the Home Affordable Modification Program, or HAMP. It's designed for homeowners who are likely to lose their homes because they can't keep up with mortgage payments. Even if you aren't behind on payments yet, you can qualify for help if you can demonstrate that you will

fall behind soon.

To qualify for HAMP, the home must be your primary residence and you must owe \$729,750 or less on a first mortgage that was originated on or before Jan. 1, 2009. Your monthly payment on your first mortgage must be greater than 31% of your monthly gross income. Second mortgages and home equity lines of credit don't count. You must also demonstrate financial hardship such as a jump in mortgage payments or a drop in income.

A loan modification makes sense if you can't afford your current mortgage payment but could manage to stay current if that monthly payment is lowered. Second homes, which include vacation homes and rentals, don't qualify for the program. Homes of up to four units are eligible, with higher loan limits, as long as you occupy one of the units. HAMP is scheduled to expire at the end of 2012.

### **How to get started**

HAMP begins with a trial phase. Contact your lender to initiate the process, or call 1-888-995-HOPE to get free assistance from a housing counselor approved by the U.S. Department of Housing and Urban Development. The lender will calculate a lower monthly payment, which you must make on time for at least three months. After successfully completing the trial phase, your lender should make the loan modification permanent.

While lenders may accept some undocumented information up front to begin the process, eventually you'll need to file detailed paperwork to earn a permanent modification. It's better to get your documentation in order in advance. HAMP administrators say the leading reason trial modifications fail to be made permanent is missing paperwork.

Start by gathering information on your income (pay stubs), expenses (mortgage statements, tax and insurance bills, debt balances), and assets (bank and non-retirement savings statements). You'll need that information to fill out the Request for Modification and Affidavit (<http://makinghomeaffordable.gov/docs/RMA%20Interactive%20-%20Updated%2011.10.09.pdf>). Also complete IRS form 4506T-EZ

(<http://www.irs.ustreas.gov/pub/irs-pdf/f4506tez.pdf>), which allows your lender to review your income tax returns. File a Hardship Affidavit (<http://www.makinghomeaffordable.gov/docs/hamphardshipaffidavit.pdf>) as well. If possible, send all of the documents at once by certified mail to your lender to lessen the likelihood of lost paperwork and delays, says Nicole Hall, editor of LendingTree.com.

### **Lowering your monthly payments**

A lender can modify a mortgage in several ways: lower your interest rate, reduce your principal, or extend the term of the loan. The basic goal is to use one or more of these approaches to get your monthly mortgage payment, including real estate taxes and homeowners insurance premiums, down to a more affordable 31% or less of gross (pre-tax) income. Lenders are allowed to cut your interest rate to as low as 2%, if necessary. The average HAMP modification has reduced monthly payments by \$640.

To get a ballpark figure of how much a modification might lower you monthly payment, run the numbers

([http://www.makinghomeaffordable.gov/payment\\_reduction\\_estimator.html](http://www.makinghomeaffordable.gov/payment_reduction_estimator.html)) for yourself. If, for example, your current mortgage payment is \$2,000 and your monthly gross income is \$4,000, then you're paying 50% of your pre-tax income toward the home loan. A typical modification to bring that figure down to 31% would reduce the payment to \$1,240, a savings of \$760 a month.

### **Alternatives to foreclosure**

Even if you're facing foreclosure, HAMP is worth a shot. The foreclosure process is suspended while you're in the trial phase of the modification. Foreclosure can be avoided altogether if you can demonstrate the ability to keep up with the new, lower payment and graduate to a permanent modification. Keep in mind that the foreclosure process can resume if you miss payments during the trial phase or fail to get approved for a permanent modification.

Some owners won't be able to stay in their homes, even with a mortgage modification. To avoid foreclosure, look into the federal Home Affordable

## Foreclosure Alternatives

(<https://www.hmpadmin.com/portal/docs/news/hampupdate113009.pdf>)

program. HAFA offers lenders financial incentives to opt for a short sale or deed-in-lieu rather than a foreclosure. Although the program doesn't officially go into effect until April 5, 2010, some lenders may initiate it early.

In a short sale, a borrower sells a home for less than the outstanding mortgage, and the lender takes the proceeds and considers the debt paid off. In a deed-in-lieu, the homeowner turns over the home to the lender, and the mortgage is closed. Although neither option is ideal, either can make sense if a loan modification isn't attainable or sufficient.

Donna Fuscaldo has written about mortgage refinancing for Dow Jones, the Wall Street Journal, and Fox Business News for more than a decade. Like many homeowners, her mortgage is precariously close to being underwater.