



An Overview

Loss Mitigation is the most viable and amicable way to avoid foreclosure, benefiting both the homeowner and lender.

GMAC Mortgage has successfully worked with 6,000 people to keep their home. They state the benefits of Loss Mitigation include: helping subprime borrowers potentially reinstate their delinquency and remain in their home; avoid complicated foreclosures which could result in tax implications or possible legal action; avoid filing for bankruptcy; and maintain their credit rating.

According to the National Credit Union Administration, loss mitigation techniques that preserve homeownership are generally less costly than foreclosure, particularly when applied before default.

Loss Mitigation options depend on a few variables: financial circumstances, type of mortgage, the possibility of the homeowner keeping their home or if they need to give up their home.



Success is the ability to go from one failure to another with no loss of enthusiasm.

~ Sir Winston Churchill

Four Options to Keep a Home

1. Loan Modification: A loan modification involves changing one or more of the terms of a mortgage in order to help the homeowner bring a defaulted loan current and prevent foreclosure. If the homeowner cannot pay enough money to bring the account current or to afford the total amount of the current payment, the lender may reduce the interest rate, extend the term of the loan or add the delinquent interest amount to the unpaid principal balance.

This option generally is considered for homeowners whose financial problems are expected to be more long term.

2. Repayment Plan: This agreement enables the homeowner to resume making the regular monthly payments in addition to a portion of the past-due payments.

3. Forbearance: If the homeowner knows they will have a source of funds to bring the account current by a certain date, they may be eligible to arrange for a temporary reduction or suspension of payments. At the end of the agreed-upon period, the homeowner would be required to resume regular monthly payments as well as pay additional funds to make up for the past due amount.

4. Partial Claim: If the mortgage is insured, the homeowner may qualify for an interest free loan from the mortgage grantor in order to come current



The Default News™

Understanding Loss Mitigation

3 Options to Give Up a Home

1. Assumption Loan: A new buyer may be able to assume the existing mortgage, even if the mortgage states it is not assumable.
2. Short Sale: If the loan payment is greater than the property's fair market value, the homeowner may qualify to sell the home for less than what they owe.
3. Deed-in-Lieu: If all other alternatives to foreclosure have been explored with no positive outcome, the lender may accept title of the property as settlement for the debt.



Counselors and Agencies

The FTC recommends homeowners should talk to Loss Mitigation departments and meet with a credit counselor.

A benefit: The counselor can speak on the homeowner's behalf, with approval.

Other Resources:

- HUD Approved Counseling Agencies
- (800) 569.4287
- Homeownership Preservation Foundation
- (888) 995.HOPE
- FHASecure
- (800) 225.5342

Building a Strategy



Be Proactive: If one believes their mortgage will default or if they are in default, they need to contact their lender's Loss Mitigation department immediately. Why?

1st, Loss Mitigation options are now viewed as a consumer protection tool. In fact, on September 4, 2007, the Federal Reserve and the Conference of State Bank Supervisors encouraged institutions to review and ... to identify borrowers at risk of default and pursue appropriate loss mitigation strategies designed to preserve homeownership.

2nd, the FDIC also released a statement, requesting that loan workouts should not put borrowers in situations where debt-to-income ratios exceed 50 percent.

Tell the Financial Story: Lenders do not have a standard loss mitigation program. At minimum they will want the following two documents:

1. A letter from the homeowner describing their financial situation and how they would like to resolve the problem.
2. A financial statement listing all assets, liabilities, monthly income and expenses.

Have Patience: Because foreclosures are hitting the U.S. like a tsunami, Loss Mitigation departments are backlogged, and it could take two months to review a financial assistant package.