



Understanding Loan Modification and the Making Homes Affordable Program **By: Michael Puchalla, Certified Foreclosure Counselor**

A loan modification occurs when the owner of a mortgage agrees to alter one or more of the following elements of the loan: the interest rate, term, and/or principal balance. It is important to understand who the true “owner” of the mortgage is. The institution you make your mortgage payment to is typically a servicing company. They collect payments on behalf of an investor, who has the ultimate say in whether a loan will be eligible for modification assistance. The process of how mortgages are bundled and sold is very complex, but the important thing to remember is to approach your servicing company with an open mind and patience. It also helps to research and understand the programs that are available.

In March of 2009, the Department of Treasury announced the Making Homes Affordable initiative. There are currently three components - the Home Affordable Refinance Program (HARP), Home Affordable Modification Program (HAMP), and Home Affordable Foreclosure Alternative Program (HAFA). HARP provides an option for homeowners who have stayed current on their mortgage to refinance and take advantage of today’s low interest rates even though values have dropped below normally accepted levels. The investor or owner of your mortgage must be either Fannie Mae or Freddie Mac in order to qualify for this program as of today.

The more widely used retention program is HAMP. Any servicing company or investor is eligible to participate in this program, and there are financial incentives for each loan that is successfully modified. The goal of the program is to bring the total housing payment down to 31% of the gross household income. Total housing payment includes principal, interest, taxes, insurance, and association dues if applicable. It would also include private mortgage insurance if it is a part of your current mortgage payment. You **must** have verifiable income in order to qualify for assistance through this program. All eligible loans will enter into a minimum 90-day trial period. You may need to submit updated income documents at the time the trial modification is offered. If you comply with the terms of your trial modification and the income is appropriately verified, you should receive a permanent modification to your mortgage. The new payment will be achieved through the use of three options in order: 1) reduction in interest rate; 2) extension of mortgage term to a maximum of 40 years from the date of modification; 3) forbearance of principal creating a balloon payment at maturity. Recently, there has been an enhancement to HAMP called the Principal Reduction Alternative. This is a very appealing option in areas of severe property value decline like Southwest Florida. Through this enhancement, servicers are given the option to forgive a portion of the existing unpaid principal balance to bring the total housing payment to the target level of 31% of gross household income. The servicer will determine the current market value of the property, and **can** reduce the principal balance to as low as 115% of this value.

Treasury has recognized that it is not financially feasible for all homeowners to retain their primary residence. This has led to the creation of the HAFA program, which is featured in the short sales section of the site.

It is important to note that each and every file is reviewed for assistance based on income qualification and need, and **everyone's** situation is different. Most servicers have in-house or back-up modification programs that they will automatically review your file for if HAMP eligibility is denied. Modification of your existing mortgage cannot be guaranteed by anyone. You should not pay for modification assistance on your primary residence loan. If you have questions about the Making Homes Affordable program, you can find more information at www.makinghomeaffordable.gov. If you would like to consult with a HUD-approved housing counselor, you can contact the HDC of SW FL at (239) 434-2397 or visit www.collierhousing.org. All consultations are free of charge, and the counseling staff has access to the latest information, contacts, and resources to assist you in preventing foreclosure.

This article is one of a series authored by members of the Collier County Foreclosure Task Force, a grass roots pro bono initiative launched in 2008 by Legal Aid Service of Collier County and the Collier County Bar Association. The Foreclosure Task Force (FTF) was formed to promote foreclosure prevention through education and intervention. The FTF has assisted local homeowners through free public workshops and legal clinics, and via a website it created - www.collierFTF.com.