



OPTIONS IN FORECLOSURE

KEEP YOUR HOME

MSUE FORECLOSURE DEPARTMENT
586-469-6430

I. PREPARE A WORKOUT PACKAGE FOR YOUR BANK/MORTGAGE COMPANY

1. Call your bank or mortgage company. Ask to speak to someone in the **Loss Mitigation Department** and ask for a workout package. A workout is package contains the documents required by a lender to determine if they can help.
2. Develop a one month household budget. This will be used in the workout package. Cut all unnecessary spending. Look for ways to increase income. You should spend 31% of your gross monthly income for housing expenses (principal, interest, insurance, taxes and homeowner association dues if applicable) and only 11% for all other monthly debt payments (credit cards, installment payments, auto loans, student loans).
3. Include a Hardship Letter if a Hardship Affidavit form is not included in the workout package. The hardship letter should:
 - Explain your difficulty affecting your ability to pay the mortgage
Include a description of your household: size, children, ages and special situations
 - State your goal for the house – keep or sell
 - Outline efforts to help yourself, such as cutting expenses, adding income, etc
 - Be positive. State that with help, you are confident that your current situation can be resolved
4. Fill out the workout documents promptly. Keep a copy and send the package back by certified mail. If you fax the documents, get a receipt indicating the date, time, fax number sent to and that transmission went through.
5. Keep a record of ALL calls and correspondence with the lender: date, time, names, phone numbers and brief outline of the conversation. Use the Client Phone Log sheet from MSUE.
6. If the lender does not allow house payments at this time, save the money in a separate account each month. You will have a lump sum for a workout or to move if you lose the house. Do not use these funds to pay other debt. Focus on saving the house.

II. WORKOUT CHOICES

1. If funds are available or expected in the near future:
 - Partial Reinstatement or Repayment Plan – borrower completes a written repayment plan and pays all outstanding fees, expenses and the first payment of the plan. Homeowner has a fixed amount of time (usually 12 months) to pay normal monthly payment plus an additional amount
 - Forbearance - borrower requests an agreement to reduce or stop monthly payments for a defined period (usually 3-12 months). Borrower must make

mortgage current at the end of the forbearance period. This is good for borrowers expecting a lump sum or returning to work.

2. If funds are not available:

- Loan Modification - written agreement that permanently changes one or more terms of the original mortgage. Change is usually based on getting house payment to 31% or 38% of gross monthly income. This is accomplished by using a “waterfall” approach:
 - i. Reducing the interest
 - ii. Extending the mortgage maturity date
 - iii. Deferring a portion of the principal to the end of the mortgage
 - iv. Reducing or eliminating fees

SPECIAL FHA/HUD MORTGAGE PROTECTIONS

Partial Claim - If the borrower is 4-12 months behind and have not recovered from the crisis, the lender can loan you the money to get your monthly payments caught up. Then, HUD reimburses that loan to the lender and puts an interest-free lien against the property. When the borrower, sells, refinances or pays of the mortgage, the lien must be paid off.

REVERSE MORTGAGES

For people over 62 years of age only. The Homeowner uses the equity in the home to live on. The money is not paid back until the house is sold. It is a very expensive mortgage and may not solve your financial problems, but in some situations, may be a good choice.

LEGAL POSSIBILITIES TO SAVE THE HOUSE (This is NOT legal advice.)

- A. Procedural defenses - If anything was done incorrectly during the foreclosure process, the lender has to start over. It buys the homeowner time.
- B. Bankruptcy - Slows everything down so you have more time to get money together, eliminate other debt to pay mortgage or sell the house.
- C. Substantial Hardship or Equity - Terrible circumstances or a house that is nearly paid off could result in a special judicial consideration.
- D. Truth-in-Lending Recission - complicated but powerful tool when dealing with predatory mortgage companies or home improvement companies. It is only for refinanced mortgages, home equity loans or credit lines, debt consolidation loans that involve the house as collateral. Was the lender dishonest? Did a bad loan put the homeowner at risk of foreclosure? A Truth-in-Lending recission cancels the mortgage and therefore, the foreclosure.