Los Angeles Times

http://www.latimes.com/business/la-fi-cover22-2009mar22,0,7096135.story?track=rss
*From the Los Angeles Times*

# A consumer's guide to mortgage modifications

You don't need to pay for counseling -- there's plenty of free help available. But many people in trouble won't qualify for loan breaks, even under a new U.S. subsidy program.
By David Colker

March 22, 2009

The loan modification business is getting such hype you'd think it was the next Batman movie.

Turn on the TV or radio, or even pass a bus, and you'll be exposed to another advertisement by credit counselors, lawyers and others who offer to work miracles with a mortgage. For a fee.

But you don't have to pay for counseling or legal help -- they're free, under federal programs that you support with your taxes.

And yet, no matter how upbeat the commercial hype or how much free help is available, the final answer may not be welcome -- many Californians with mortgage troubles will not get a modification, even under a subsidy program the Obama administration debuted this month.

But government pressure, proposed law changes and the ever-increasing burden of foreclosed housing could make loan modifications available to more homeowners as the economic crisis trudges on.

Here is a consumer's guide to loan modifications: what's available, who's eligible and how to find help.

It's time to rip off the mask.

**What's a loan modification?**

It's an adjustment to a home loan -- sometimes temporary -- that lowers the monthly payments.

In the vast majority of cases it involves only the interest on the loan, not the principal.

For example, if the interest rate on an adjustable loan has jumped to 8%, a modification might take it down to 6% or lower for five years.

Another type lowers payments by adding years to traditional 30-year loans, possibly in combination with an interest rate decrease.

"We've seen 40-year loans at 5% interest," said Larry Reed, a counselor at Los Angeles Neighborhood Housing Services.

**Are there other loan breaks?**

Banks are offering loan strategies that aren't strictly modifications but could keep the foreclosure wolf from the door. In many cases they involve stalling tactics.

One is called a forbearance. It's a temporary suspension of loan payments to give a borrower a bit of breathing space. Usually it lasts just a few months, then the payments start again.

Don't confuse forbearance with forgiveness -- you're expected to eventually make good on all the payments you were allowed to skip.

Another tactic is a repayment plan, often used in combination with a forbearance. The plan lets you catch up on missed payments by having you pay extra every month until the skipped money is made up.

**Who gets a loan modification or other type of plan?**

Loan modifications, with rare exceptions, can be obtained only by borrowers who can show there's a substantial chance their troubled mortgages can get back on track.

If the situation that got the mortgage into trouble -- such as a layoff or unforeseen expenses -- doesn't look like it's going to get resolved any time soon, the chance of getting a modification aren't good.

At a recent foreclosure prevention clinic sponsored by Los Angeles Neighborhood Housing Services, one man raised his hand to ask, "If you lose your job, is a loan modification out of the question?"

Reed didn't hesitate before answering, "I would say it's out of the question."

Many of the 60 people in the room groaned.

Perhaps the only mitigating factor is if the borrower has another job lined up for the near future. Then some kind of adjustment might be possible to delay payments until money is coming in again.

If a borrower has taken on far too big a loan, even if urged to do so by a predatory lender, a modification might not be likely.

During the clinic, a borrower on the verge of tears sat with counselor Donna Reino. Already six months behind on her mortgage, the borrower was supposed to be paying $2,900 a month.

"I'm going to tell you right now that your expenses far exceed your income," Reino said gently.

Foreclosure was inevitable. She would eventually have to move out, the counselor told her, and become a renter.

"You're a young girl," Reino said, "and you can start all over again."

**What about modifications under the new Making Home Affordable program?**

Announced March 4, this federal program provides $75 billion in financial incentives to lenders so that they will reduce interest payments. In some cases the program allows for a reduction in principal so that the monthly payment will not exceed 31% of the borrower's income, but that reduction is only temporary. The set-aside portion of the principal will have to be repaid when the loan is paid off or refinanced or the house is sold.

It's for homeowners who "have experienced a significant change in income or expenses to the point that the current mortgage payment is no longer affordable," according to program guidelines.

But there's an important catch: It's only for "working homeowners struggling to retain homeownership."

The jobless need not apply, which is a serious setback in California, with an unemployment rate that exceeds 10%.

Other restrictions: Investment properties are out, as are most McMansions bought over the last few years, because the unpaid loan balance has to be $729,750 or less to qualify. And the program applies only to loans made before Jan. 1, 2009.

Finally, the program isn't mandatory. The final decision is made by the lender.

But the new plan could benefit working-but-struggling borrowers who have kept payments current. Banks may not consider them for modifications unless they are actually delinquent on the mortgage. The new program welcomes them to apply.

Also, owners of homes that are underwater -- that is, the amount owed is more than the home's current value -- are eligible.

**How do I apply for a loan modification?**

First, it's a good idea to talk with a mortgage counselor at an agency certified by the U.S. Department of Housing and Urban Development.

All work by the counselor is free. You can find an agency in your area by going to www.hud.gov and clicking on the "Foreclosure Avoidance Counseling" link.

There are 18 agencies in Los Angeles County offering the free service, with others in Orange, Riverside, San Bernardino and Ventura counties.

The counselors take down financial information about your mortgage and income; from that, they probably will be able to tell whether you're a candidate for loan modification.

Some of the agencies have established relationships with the major banks and mortgage companies and will contact them on your behalf if it seems there's a chance for a deal.

Otherwise, you can contact the bank or company handling your loan on your own.

The lenders have the final word. Even if you qualify under the new government program that partly subsidizes loan modifications, a lender isn't required to offer you one.

**Will the federal government make loan modifications more widely available?**

Possibly.

A bill that passed the House this month would allow bankruptcy judges to order lenders to reduce the principal owed on a residential loan. But this cramdown, as it's popularly called, would apply only to Chapter 13 bankruptcy filings that reorganize debts, generally giving the debtor a lot more time to pay them off.

Chapter 13 bankruptcies almost always require that the debtor be working or otherwise have a steady income, which again cuts out many Californians in mortgage trouble. (The other type of bankruptcy most often used by individuals, Chapter 7, does not require a steady income, but the proposed cramdown law would not apply to it.)

The change, if it comes, would not allow the homeowner to get a principal reduction and then quickly sell the home to make money. Under the proposed law, if a home sold within a year of a cramdown turned a profit, 90% of it would go to the lender.

If the home is sold in the second year after the reduction, 70% of any profit would go to the lender. Then 50% of the profit in the third year, 30% in the fourth year and 10% in the fifth year.

After that, the borrower could sell the home and pocket all the profit, if any.

The bill, which is opposed by the mortgage industry, is expected to get a rocky ride in the Senate.

If it goes into effect as written, it would apply only to bankruptcies filed after its enactment.

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