The NMN FOUNDATION: a nonprofit organization

How do I prioritize Financial Hardship?

One of the mistakes that many homeowners facing a financial hardship often make is failing to prioritize their debts. Even after they fall behind on one or two monthly payments, instead of abandoning the least important ones, they typically try to keep on top or just a little late with them all. This can often be a mistake. You must be able to identify what is the most important and which have the heaviest consequences by timeframe.

Prioritizing bills and eliminating the least important ones is the first step that borrowers should take when they experience a medical catastrophe or a job loss. If they will not be able to pay all of their bills on time during the duration of the financial hardship, then some will have to be set aside while the most important are paid first. ***It is also very important to ask yourself or try to figure out if this is a temporary hardship or a loss in income or wages that should be considered a long term problem.***

Keeping food on the table and the lights on are the most important bills. Payments for basic necessities like groceries and utilities can often be lowered during a hardship, but no family can survive long without food, heat in the winter, and electricity.

Second in importance will usually be any bills the homeowners have that involve their job or business. Car maintenance and repair expenses along with gas to get to and from work are both important to keep up on. As well, if the borrowers operate their own business and are still receiving meaningful income from it, these bills may take priority over others.

In terms of debt payments, then, ***the mortgage and any car loans should be prioritized.*** This does not mean that homeowners should keep an expensive car or overvalued, underwater home if they can trade it in for a used but paid-off car or go from owning a home to renting, if the financial situation calls for such sacrifices. ***Remember to always look at unsecured debts first like credit cards and signature loans and always consider your secured debts a priority, like your mortgage and your car loan if it is necessary for your job or it has been determined that it is a budget capable car payment or mortgage.*** Protecting your credit and your mortgage rating are more important than you may think.

Most borrowers will ***<u>not</u>*** want to take necessary resources away from their mortgage to pay credit cards, other unsecured debts, or low priority bills. In fact, many bills can be eliminated or reduced dramatically during a financial hardship, such as cable television, eating out, movie rentals, or gym memberships. ***Credit cards that go into default can be much easier to negotiate down than mortgage balances.*** Do not believe that going late on your mortgage will get your lenders to pay attention to you and help you. This is false and actually just gives them more control since you now have damaged credit and/or mortgage ratings. ***Always make sure you look at eliminating other debts first and make sure that you ask yourself, if you did eliminate them could you now afford my mortgage payment and housing expenses (Tax, insurance, etc)?***

One of the easiest ways to reduce both priority and unimportant bills is by attempting to negotiate them down. Cable companies may be able to offer introductory rates to current customers, while mortgage companies can provide borrowers with a loan modification or temporary Forbearance plans. Homeowners should take advantage of these opportunities to try to work out a solution to foreclosure before it becomes a problem. ***Sometimes, the biggest equation will come down to determining if saving the home even makes sense at all. We are all emotionally attached to where we live but knowing that you may have <u>less than a 3%</u>***

<u>chance</u> of modifying your home loan forces one to consider other options. Considering the fact that keeping a home that is underwater may not make any financial sense at all and may cause unnecessary financial strain for you and your family for years to come.

Any family soon to be facing foreclosure should immediately begin to prioritize their bills, paying attention to the ones most important and identifying the ones that can be reduced or eliminated. It also makes sense to begin negotiating with every debt holder to reduce rates or payments, even temporarily, which can help avoid foreclosure, bankruptcy, and a whole list of other financial troubles. We can help council you and help you think about what you need to do. Attached is a list of your options with brief explanations. More information is available on each specific option and we have professionals that have been screened and have agreed to our code of ethics and business conduct that we can refer you to once you determine your path to financial security. We can also send you specific information on each topic once you have decided on which avenue(s) you may want to take. ***If you are not sure how or where to get started, <u>request our Financial Worksheet</u> and fill it out. This will help you realize your income and outgoing expenses so that you may determine the correct ratios of your debt versus your income and help you really see what you are paying for on a monthly basis.*** As a nonprofit company the NMN foundation is determined to help homeowners realize their dreams without sailing into a financial nightmare. We are here to help!

What are my options if I need help?

<u>Refinance or Debt Consolidation in a Mortgage or Signature Loan</u>: Obtaining a new loan large enough to consolidate some of your existing debts. Typically the payments end up being lower with the new loan simply because the "term" of repayment is extended in a signature loan or mortgage and the overall interest rate is now fixed for the long term and much less than the unsecured debt's interest rate. However, obtaining an unsecured Debt Consolidation Loan is extremely challenging given the current unavailability at most banks and lending institutions. Refinancing your mortgage for debt consolidation may have the best availability but this can also be challenging due to stricter lending guidelines and credit score requirements. Consult a financial planner or a well trusted mortgage specialist for these options. If you have had credit damage this may not be an option at all.

File Bankruptcy: if you qualify a Chapter 7 or Chapter 13 can eliminate all of your unsecured debts. By seeking the counsel of a bankruptcy attorney you can find out if you qualify. A chapter 7 bankruptcy would excuse you from all debts and future payments. A Chapter 13 actually requires partial payback of the total debts being filed. This can be a very expensive process since it requires the services of a law firm and a judgment will remain on your credit report for 10 years (recently changed from 7 to 10). Many consumers find it difficult the first 3-5 years to get any credit options after the fact, since it holds a noncredit worthy stigma and it is ultimately up to the judge to decide your fate. The common misconception is that this will apply to or help you reduce or release your mortgage debts. Even though you may be personally not liable for the debts mortgage after your bankruptcy is discharged, if you default on the payments the bank will foreclose on the property.

Debt Management (aka Consumer Credit Counseling Services): Designed to assist Consumers who are overwhelmed with their unsecured debts and in need of assistance with renegotiating these debts (with the goal of reducing their interest rates & monthly payments). When a Consumer enrolls in a CCCS program, they are agreeing to a period of time where they must pay back the existing debts (while not acquiring new debts). The process is very similar in design to a Chapter 13 Bankruptcy (and often treated as such by Lenders who evaluate Borrower's for new mortgage loans). Your credit still suffers and often times the percentage of payments you make goes to the Counseling Company. Many of these are nonprofit and can be helpful and educational but the payback plans often times take extreme commitment to finish and may not save borrowers enough money monthly to avoid default of the debts.

Do Nothing: Many Consumers continue to pay the minimum monthly payment each month to their Creditors (which are exactly what the Creditors want them to do). Through simple mathematics of "compound interest" the Creditor will benefit from extremely long timeframes of debt payoff when the Consumer makes these minimal payments. The end results are excessive finance charges, and payoff terms that some Consumers will never live long enough to reach. People often consider just "walking away" from their obligations but there can be wage garnishing, Lawsuits and personal liability that cannot be avoided and will come back to haunt many consumers. Dealing with issues head on is a much better solution to a long term problem.

Debt Settlement: Companies offering these services typically enroll the Consumer in a monthly payment plan for their unsecured debts that is lower than what the Consumer is currently paying to their Creditors. Each month, the money paid by the Consumer goes into a trust account managed by the Debt Settlement Company (instead of to the Creditors). After about 3-

4 years, enough money has been deposited into the trust account, allowing the Debt Settlement Company to offer a deal to the Creditors. By this time, most Creditors have already "charged off" the debt, and will gladly accept a reduced payoff amount to settle the debt. Credit is still severely damaged and there is no guarantee that your creditors will accept the settlements.

Debt Elimination Discharge Programs: A process of utilizing legal leverage and strategy to negotiate with the Creditor (and any Collection Agency they might align with) to eliminate all (or a significant portion) of your credit card debts. The process can last approximately 6-12 months and exists for total credit card balances of $10,000 or more. Upon completion, the Debt elimination company will address the data on your credit report in an effort to increase your credit scores after the damage has been done the debts are now discharged. Many of the time these companies do a good job at getting the creditors to discharge the debt and keep collection agencies and collection attorneys from garnishing your wages or getting judgments to leverage your bank accounts. Credit damage will be suffered as usual but this can be the best short term solution to get rid of the payments completely if you have to prioritize what you can pay monthly. There is no guarantee that your credit scores can be increased in less than 3 years but time can heal.

Loss Mitigation or Negotiating your Mortgage: This can be done by hiring an Attorney, done yourself by working with your Lender directly or in the case of a Short Sale, finding a good Real Estate agent to work with. Remember that so far national numbers say that only 3% or less of borrowers that apply will receive a loan modification. Understanding all of these options is important since you cannot rely upon just one category or option to keep you in your home. This should be the last option when prioritizing hardship. Always see if eliminating the other non secured debts will work first or if maybe choosing to pay a First mortgage payment only over the second mortgage payment if the second mortgage is an underwater loan (*Remember the second mortgage can still foreclose but if it is determined that there are not enough funds in the sale of your home to pay off the first mortgage and the costs associated, they may not have this option*). These processes are timely and there are no guarantees. If it is determined that the only way possible to stay in the property would be a mortgage payment reduction then you may want to consider a Short Sale.

Types of Loss Mitigation

Loan Modification- Upon a showing of financial hardship a lender/investor agrees to modify the terms of your existing loan by either adjusting the mortgage rate, the principal balance or a combination of both. Most of the time the lender will first offer what's called a Trial Modification Period at a reduce payment to allow them time to see if it makes sense for them to even offer a long term modification solution. National numbers show that it is less than .50 percent has actually received modifications after the trial period is completed.

Partial Claim- Only for FHA loans in foreclosure. HUD will pay the lender up to 12 months of delinquent payments. The borrower will re-pay this amount to HUD when the borrower pays off the loan, refinances or sells the house.

Special Forbearance- The lender/investor agrees to reduce the borrower's mortgage payment for a short period of time (typically a few months). If the borrower successfully makes their payments, the lender/investor may then be more willing to offer a loan modification. Most of the time after the forbearance period the lender will usually require the payments and terms to be the same as the original terms signed in the note.

Deed in Lieu- The borrower transfers title of the property to the lender without making the lender go through the foreclosure process. This is beneficial to the lender as they will save money by not going through foreclosure and enable them to market the house sooner to avoid further depreciation. While this will still negatively impact your credit, the impact may not be as severe as losing the home through foreclosure.

Short Sale- When a property is worth less than the mortgage owed, the lender/investor may agree to let the borrower sell the house for less than owed as full settlement of the loan.

Short Refinance- Similar to a short sale, except that the proceeds used to pay the lender come from a new loan instead of a sale of the property. This requires the borrower to qualify for a new loan, but allows the borrower to keep their home. These programs have been used very little and principal balance reductions or write downs are extremely rare.

Litigation- The last option, but nevertheless an important one if applicable. In the event that it is determined that there were violations of various federal or state statutes in your original loan documentation or if the banks or lenders violated the foreclosure laws, litigation may be recommended to assert your rights. Once litigation is started and documents are filed with the court the time frames initially quoted will no longer be applicable and the process could extent out as much as 2 years.

Please contact us today at 1-800-349-2119 to speak to one of volunteers that may be able to help answer any questions or help you determine your options. We are a nonprofit company dedicated to helping consumers. For more information like this one above log on to www.nmnfoundation.com and feel free to take any information post you would like to read.

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www.nationalmortgagenetwork.org

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