

## Loss Mitigation Process Terms and Flow

**Loss Mitigation** is the term lenders and servicers use to describe the process they use in resolving loans in default. The Loss Mitigation Department is where workouts are done.

### **Loss Mitigation Terms**

**Reinstatement:** Reinstatement occurs when the homeowner brings a delinquent mortgage current or “cures the default” by paying the total delinquent amount.

**Forbearance:** An agreement that allows the homeowner to pay less than the full amount of the mortgage payment or pay nothing for a given period.

Note: A forbearance period is usually followed by and requires either a repayment plan or a loan modification that adds the amount in arrears to the principal amount either by increasing the monthly payment or extending the loan.

**Repayment Plan:** An agreement that gives the homeowner a fixed amount of time to bring delinquent mortgage payments current by paying the normal monthly payment PLUS an additional amount

**Loan Modification:** A written agreement between the lender and the homeowner that permanently changes one or more of the original terms of the note such as:

- Changing the mortgage product type—e.g. making an adjustable rate mortgage (ARM) a fixed-rate loan
- Reducing the interest rate
- Reducing the principal amount owed
- Reducing the monthly payment
- Extending the maturity date of the note
- Increasing the unpaid principal balance (UPB) by capitalizing the delinquent amount

**Short Sale:** An agreement to sell the property prior to foreclosure for less than the total amount owed on the mortgage and the lender servicer forgives any shortage.

**Deed in lieu of foreclosure:** The homeowner deeds the property to the lender/servicer to avoid foreclosure generally in exchange for the complete cancellation of the mortgage debt.

**Loan Assumption:** Even if your mortgage isn't assumable, your lender may allow someone else to take over the payments and bring the loan current. This may allow you to sell your home.

## Brief Roadmap for a Loan in Default—Dealing with the Loan Servicer

- I. Collection Department: Goal is to get money from the homeowner and resolve the default quickly.
  - Reinstatement
  - Relief Option: Forbearance/Repayment (Payment Plus)
  
- II. Loss Mitigation Department: Goal is to determine whether there is a viable workout for a homeowner in default in order to make a nonperforming loan perform.
  - A. Who Holds the Loan
    1. Portfolio Servicer/Lender Servicer
    2. 3<sup>rd</sup> Party Servicer—Servicer who has a contract to service a loan for an investor/lender and owes a duty to the investor/lender
      - Investor—e.g. FreddieMac, FannieMae, Pooling Servicing Agreement (PSA), Trust.
      - Delegated Authority
  
  - B. Two Questions for Homeowner
    1. Does the homeowner want to save the home?
    2. Does the homeowner have the ability to save the home?
      - Determine what the homeowner can afford by looking at
        - Debt to income ratio (DTI) and
        - Residual income (income left over after all monthly obligations are met)
  
  - C. Workout Options
    - 1) Saving the Home: Loan Modification that will make the loan affordable and sustainable for the homeowner.
      - Capitalize arrearage—extend term or increase payments
      - Fix introductory interest rate
      - Lower interest rate
      - Reduce the principal amount owed
  
    - 2) Letting the Home Go: Negotiating a soft landing to reduce the homeowner's liability and allow a fresh start
      - Short Sale
      - Deed in Lieu of Foreclosure
      - Mortgage Assumption
        - Cash for Keys available?