

# THE MODIFICATION SOLUTION

Loan modifications have become the preferred method for banks to reverse the housing crisis and curb their losses. After you read this report you'll understand not only how the loan modification process benefits your **LENDER**, but also how much freedom and security it offers **YOU!**

## **The Lender AVOIDS the greatest short term and long term losses through the loan modification process.**



Your lender or service provider cares most about increasing their sharehold

er profits and mitigating losses to show the strongest balance sheets. There's no doubt about it; we're in the midst of one of the worst housing and economic crisis our country has ever seen. This includes the largest bank failures in U.S history and the largest government takeovers and involvement in the private sector ever. These are unprecedented

times. Banks are now employing unprecedented strategies to mitigate these losses in an ever-changing economy.

**H**omeowners who fear being unable to make their mortgage payments, or who have already

fallen behind, can take heart: A limited number of solutions are available for remedy. The first and least desirable is foreclosure. Foreclosure typically costs the lender the most for a variety of reasons. In most states the foreclosure and eviction process is a lengthy one, between six and nine months. During this time the lender receives no payments on the

mortgage note, which means they are lending the money for free for the better part of a year. Often this time frame is prolonged when borrowers try to modify the loan on their own. Dealing directly with the banks is a pitfall for the borrower and seldom produces true solutions. This invariably leads to further defaults on the new agreement and creates a prolonged period of time that the lender doesn't get paid while the homeowner lives on the property.



Consumers often panic and file bankruptcy to stop the foreclosure process. While this does stop the foreclosure proceedings, it has a very low success rate and increases the duration of time the homeowner can live in the home with out making payments to the lender.



Naturally, homeowners who aren't making payments on the home they're living in and have an eminent foreclosure don't typically take good care of the property; when was the last time

you took a rental car for a car wash and oil change? By the time lenders actually complete the eviction process and physically take over the property, they're often left with dilapidated properties in desperate need of costly maintenance. In the best case scenario they're looking to resell it to the highest bidder and receive 30%-50%+ losses. Not only will they never get the back payments, they usually don't even get the original amount back that they loaned to the client. All costs associated with these losses often leave the bank losing 3-4 times the revenues they earned in making the loan.



The second option for a distressed homeowner is known as Deed in Lieu. This is where you voluntarily hand over the deed of your home, in lieu of (instead of) being able to make the payment. To the lender this carries the same shortcomings as indicated above except that some people occasionally volunteer their deed prior to the typical eviction period. All other shortcomings to the

lender of the foreclosure process apply in the deed in lieu process.

Bankruptcy is a solution that many people contemplate during financial hardship. While bankruptcy is often not necessarily better for the borrower, from a monthly payment perspective, it's considerably worse for the lender. The lender in most cases can't continue to collect and accrue interest and arrearages, attorney fees, late fees and penalties; they are forced to take payments as designated and provided through the bankruptcy jurisdiction. Less than 16% of chapter 13 bankruptcy plans are successfully completed with the lenders foreclosing and evicting the owners. This process, however, even when successful can prevent the lender from moving forward with the foreclosure process for months or years—assuming the borrower stays in the plan or successfully re-files should they fall delinquent. Again, the lender usually experiences far worse losses from this process than any revenues they ever could have received from the loan.

typically the last option outside of modification available to distressed homeowners today. In a properly processed short sale, an attorney negotiates with the lender to take less than what is owed on the property. This enables the borrower to list the home below market and attract a buyer who will pay off the majority of the debt due on the property through the purchase transaction. This process of negotiation, when enacted properly, takes 60 days or less. The lender takes up front losses on the sale of the property and usually agrees not to collect on accrued arrearages, attorney fees, late fees and penalties. All these costs associated with the short sale do not consider the additional up front losses that generally encumber the lender. This is slightly better for the lender, however, because the lender typically captures a greater net amount for the outstanding loan balance by selling it on the open market with the borrower's willing cooperation and a real estate agent overseeing the sale. Lenders prefer this to selling it on the foreclosure block through the foreclosure and eviction process.



The short sale option is



With these options in mind, let's now consider the loan modification process from the lender's short and long term perspective. In the modification process, the lender typically retains all or the majority of the late fees, arrearages, attorney fees and penalties as they rewrite the existing loan contract at a higher loan balance to include those items. The loan becomes considered as a performing asset on the lender's balance sheet. The lender continues to receive income from the loan. While it's always considerably lower than what they would've been earning, it's infinitely greater than the \$0 rate of return they receive in the other four solutions considered. The lender increases the security of

their collateral, the borrower's home. If the lender keeps the homeowner in the home they're likely to keep it well maintained. This is predicated on making a payment schedule the homeowner can handle for a period of 3-5 years, or at least long enough for the market to correct itself. When the market corrects itself the homeowner has other options. The loan modification process is congruent to a refinance as far as its impact on credit. Therefore the homeowner's mortgage would reflect perfect payment history after the modification is completed, allowing them the credit history needed to refinance when the market corrects itself. This enables them to sell the property at a price that not only covers all the loan balances on the property but likely leaves some profit. That's certainly a fair arrangement for most homeowners facing hardship.

## **YOUR loan modification can help OTHER loans serviced by your lender**



With all the banks, lenders and services going out of business, a great contraction in the banking and mortgage industry has occurred. This restriction means that fewer actors are spreading the risk of these loan portfolios over fewer parties. Don't worry; banks are mitigating this risk by purchasing the loan portfolios at unbelievable discounts. The reason that it benefits **YOUR** lender to modify **YOUR** loan is that it prevents another distressed property coming to the market in **YOUR** neighborhood. When distressed sales come to the marketplace, surrounding property values suffer. With the

tremendous number of loans



defaulting and A.R.M.s resetting now

and in the years to come, there's huge risk of further nation-wide declines in home values if all these loans are allowed to go into distress. This would spell disaster, as lowered property values would in turn push the values down of the surrounding properties—prolonging the housing crisis and its impact on the economy.

With fewer loan providers in the marketplace, if you have a loan from that lender in your neighborhood, chances are there are neighbors with loans from that same lender.

## **DECREASING your interest rate and structuring a loan you can TRULY afford often INCREASES the lender's profitability on your loan over time**



Remember how this report described that banks were mitigating the losses of non performing loans (loans with delinquent

payments) by purchasing the loan portfolios at deep discounts? We are going to go into detail about that and show you how your lender benefits from providing you with an interest rate you can afford. I invite you to consider the following: Let's imagine for a moment that you are a lender who purchases loan portfolios from distressed banks. A loan portfolio is a group of loans made up of several individuals' loans—some of which are receiving payments, other are not. Due to the fact many loans that are not current detract from the overall value of the loan portfolio, lenders are able to purchase the mortgage notes and the rights to collect on them for pennies on the dollar. Much like the Wells Fargo acquisition of Wachovia, lenders are purchasing loan portfolios for \$0.22 cents on the dollar and less. A lender agrees to pay eight billion dollars for thirty two billion dollars worth

of mortgage loans which are performing all over the map, but obviously not well, as your purchasing them from a bank that is going out of business.



The lender is positioned at 0.22 cents on

the dollar. To exemplify how this works, let's pretend that the lenders loan portfolio is comprised of two loans both with \$400,000 balance, both with a 7% interest rate, one that is receiving on time payments and one that is not. As you purchase the portfolio at 0.22 cents on the dollar your gross interest in each loan exists at an \$88,000 base investment value ( $400,000 \times 0.22 = 88,000$ ). So for the one loan that IS receiving payments you are receiving payments in the amount of \$2,661.21 a month for the 7% interest rate on the \$400,000 loan balance. The beautiful part for the lender is that they are only invested at \$88,000 and are still receiving the \$2,661.21 a month.

Ultimately this gives the lender a 36.29% return on their \$88,000 in half of the loan portfolio for the one performing loan. Let's consider the half, which is performing at 0%. That is really quite all right with the lender because the average between the two loans gives the total loan portfolio an average rate of return at 18.15%. You can see how the more performing assets in the form of loans the lender has that ARE receiving payments, the more NON-PERFORMING loans the



lender can afford to take on.

Now consider for a moment if the lender can be approached

with a demonstration that your loan modification cures a loan which either is, or likely is soon to be, performing at a 0% rate of return when payments fall into delinquency, can earn them more revenue. Show the banks that they can INCREASE the overall return of their total loan portfolio by giving you a 4.875% interest rate. The increase comes from the fact that the lenders' base financial position is only \$88,000

and anything that you are negotiating for is on the original loan balance and perhaps some arrearages as well. Even at a 4.875% interest rate on the \$400,000 loan amount, with a position as aggressive as \$88,000 you are still generating a monthly payment of \$2,116.83 and the lender is therefore receiving 28.86% on the \$88,000 position (not a bad rate of return, right?) This effectively increases the lender's average performance on our imaginary two loan portfolio, from the 18.15% with one loan performing at 0% to 32.58% with one performing at 4.875%. So they keep you in a loan you can afford, and they purchased your loan in many cases for so little, that they can afford to take huge concessions on the existing contract and still maintain very attractive margins (profits).



## **Your lender has or likely will receive federal funds to support and improve loss mitigation services like your loan modification**



How do you think the bail out plan affects loan modifications? Well since the federal

government has made a commitment to invest huge amounts of capital back into the capital markets and our banking systems, banks have the product they need to earn with, money. Many people are skeptical about how this approach will or will not lead to relief for the home owner in a reasonable time frame. People draw parallels between the government subsidizing the homeowner directly, for instance, paying a portion of their delinquent mortgage every month to the resolution that was passed, which re-capitalized all the banks and institutions that acted with such reckless abandon in the first place which catalyzed the current recession. Clearly it would seem unfair to the neighbor who struggled to make the mortgage

payment on time to see his or her neighbor who fell delinquent receive entitlement to federal funds to bail them out. However, this begs the question is it more fair to give the funds directly to the institutions who were in many ways negligent? The funds do have a potential application which is one of many strategies a bank in the private sector can use to leverage these federal funds to provide



relief to the home owner directly. The federal funds made available through the bailout plan could potentially

replace capital losses they otherwise planned to earn from insured mortgage backed securities that are no longer performing. Bridging the gap to meet expectations will ideally return some value and confidence to this marketplace. By allowing the homeowner to stay in the home during the time period it takes for the market to correct itself, banks have a relatively fast solution that remains in the private sector, the loan modification. Mitigating

hardship through modifications increases the likelihood of a successful transfer of title which includes the full loan balance PLUS any arrearages if there are any, and have afforded any of the losses an interest rate modification creates with the federally subsidized money. This money the banks receive is in exchange for non-voting

Reserve buys from the banks so the tax payers have an equity position with these private sectors that they are helping to finance or bail out.



(preferred) stock the Federal

## **Your house has no greater value to anyone other than you!**



In every circumstance that exists, when it comes to a primary residence, the family living at the residence has the most value tied to it. As it's a buyer's market, everyone is looking for a deal, and finding a buyer who will find more value in your home than you will is very unlikely. So your lender would rather negotiate a loan

modification with you, as you are likely to be amiable to loan plans that incorporate your hardship and provide 3-5 year resolutions. The lender can do so because if given the choice to move into a distressed circumstance and transfer under balance in some form, or stay in the property until they can honor all their debts in full and perhaps make a profit, people will choose the latter even if it's a break even proposition just for the tax breaks. The bottom line is that modifications are the best means for everyone involved.

Contact us today at [admin@methodmods.com](mailto:admin@methodmods.com) or at 866-394-1181



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Posted On October - 29 - 2008



The FDIC and the US treasury are contemplating using around \$50 billion from the recently passed bailout of the financial industry bailout to guarantee about \$500 billion in mortgages. The “tentative” plan could include loan modifications that would lower interest rates for a five-year period according to Bloomberg.

The program would be run by Sheila Bair and the Federal Deposit Insurance Corp. and could potentially guarantee around 3 million home mortgages. The plan had been scheduled to be announced Wednesday but was delayed because the details were still being finalized.

The new plan would dwarf past attempts by the administration to curb foreclosures and will be the most aggressive effort yet to limit further damage to Main Street. A [loan modification](#) plan that Sheila Bair, Chairwoman for the FDIC has been advocating for over a year and she may just get her wish.

The program, which could potentially help several million homeowners either refinance or modify their current mortgages into affordable loans, would require lenders to restructure mortgages based on a borrower’s ability to repay. The plan is said to give homeowners 5 years of fixed, lower monthly payments before they can reset again.

In the past, the Bush administration had relied mainly on a voluntary efforts of lenders and mortgage servicers to assist struggling homeowners with long term affordable [loan modifications](#) to stem the foreclosure tsunami hitting our nation.

Recently, FDIC Chairwoman Sheila Bair publicly criticized the administration for doing to little to help Main Street. It appears that her comments have not fallen on deaf ears.

Today Bair discussed the program at an international deposit insurers conference in Arlington, Virginia, without offering details. "A framework is needed to modify loans on a scale large enough to have a major impact," Bair said.

The new FDIC and Treasury program would provide incentives to lenders and mortgage servicers to offer long term affordable [loan modifications](#).

The government is also considering guaranteeing second mortgages, such as a home-equity lines of credit (HELOC), to assure investors they wouldn't take losses when the loan were modified. Sources say a guarantee in effect would put taxpayers on the hook for the loan if borrowers default.

Just this past week the FDIC was actively searching for a large commercial building in Orange County, California to house potentially thousands of employees who's jobs will consist of reworking toxic mortgages for homeowners.

## JPMorgan expanding mortgage-modification program

By STEPHEN BERNARD – October 31, 2008

NEW YORK (AP) — JPMorgan Chase & Co. on Friday became the latest major bank to beef up its mortgage modification efforts as the government also considers a plan to help homeowners avoid foreclosure.

JPMorgan's expanded program aims to help avoid foreclosures on an estimated \$70 billion in loans, which could help as many as 400,000 customers. The New York-based banking giant has already modified about \$40 billion in mortgages, helping 250,000 customers since early 2007.

JPMorgan will not put any loans into foreclosure as it implements the expanded program over the next 90 days.

The \$70 billion estimate is projected over a two-year period, but could be larger and last more than two years — as long as the company sees a need among troubled borrowers, said Charlie Scharf, JPMorgan's chief executive of retail financial services.

"We think it's the right thing to help as many people who want to stay in their homes," Scharf said in an interview.

Scharf said the modifications at JPMorgan will range from reducing rates to extending terms to completely replacing products. Modification options will be given to customers based on their current product and needs, Scharf added.

The program will also be offered to customers with loans held by Washington Mutual Inc. and EMC. JPMorgan acquired Washington Mutual last month after the bank became the largest in the nation's history to fail. EMC was a mortgage unit of Bear Stearns Cos., which JPMorgan acquired in February.

JPMorgan shares jumped \$3.63, or 9.7 percent, to \$41.25 on Friday.

With defaults mounting, lenders like JPMorgan and Bank of America Corp. have an incentive to get more aggressive about modifications, particularly because both lenders want to protect their brand image.

"These are very big, large retail banks," said Dain Ehring, chief executive of Dorado Corp., a San Mateo, Calif.-based mortgage technology company. "There's a vested interest in keeping their customers."

Bank of America has said that starting Dec. 1, it will modify an estimated 400,000 loans held by newly acquired Countrywide Financial Corp. as part of an \$8.4 billion, legal settlement reached with state officials in early October.

Meanwhile, the Bush administration is expected to soon announce a new plan to help about 3 million homeowners avoid foreclosure, though administration officials say several different ideas are on the table, and that no announcement is imminent.

The plan would be the most aggressive effort yet to limit damage from the U.S. housing recession.

The uptick in loan modification efforts was kicked off in August by the Federal Deposit Insurance Corp., which took over failed lender IndyMac Bancorp in July.

More than 4 million American homeowners with a mortgage were at least one payment behind on their loans at the end of June, and 500,000 had started the foreclosure process, according to the most recent data from the Mortgage Bankers Association.

Nationwide, almost one out of every five homeowners with a mortgage owes more to their lender than their properties are worth, according to a report released Friday by First American CoreLogic.

JPMorgan's enhanced program will include the opening of 24 regional counseling centers, the hiring of 300 additional loan counselors, new financing alternatives, reaching out to borrowers with pre-qualified modification terms and a new process to independently review each loan before it is moved into foreclosure.

Face-to-face meetings with customers and adding staff to help customers in their neighborhoods was a key part of the program, Scharf said, adding that JPMorgan worked with community groups and local organizations to draw up the plan.