

FINANCIAL MANAGEMENT DURING ECONOMIC UNCERTAINTY

Lekeisha Veasley
Housing and Fair Lending Program Manager
Operation Threshold
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OPERATION THRESHOLD
A Community Action Program

OVERVIEW

- × Dealing with debt/budgeting
- × Consumer Protection Laws
- × Making Home Affordable
- × Loan Modification Scams

FINANCIAL MANAGEMENT DURING ECONOMIC UNCERTAINTY

- × Develop a Spending Plan
- × Create an emergency fund
- × Pay off debts (credit cards, small loans)
- × Be Proactive if facing job loss/decreased income:
 - + Contact mortgage company
 - + Contact creditors
 - + Pay what you can, rather than nothing!
 - + Prioritize spending & adjust spending plan

PRIORITIZE YOUR BILLS

- × **Rent/mortgage:** pay this so you have a home to live in.
- × **Living expenses:** be sure you have enough to purchase food for your family.
- × **Utilities:** make at least some payment to ensure your power and heat aren't shut off. If you need assistance paying your utility bills, the **Low Income Home Energy Assistance Program** can help.
 - + Contact local community action agencies
- × **Auto loans/leases:** stay current so you don't lose your transportation to work.

PRIORITIZE YOUR BILLS

- × **Insurance:** huge medical bills are a common cause of bankruptcy, so it's important to maintain health insurance coverage, as well as try to stay current with your other insurance, such as life and homeowners insurance.
- × **Child care:** if you're behind in payments, your provider could refuse future care. Negotiate a deal so your children can be cared for and you can continue to work.

PRIORITIZE YOUR BILLS

- × **Credit cards/medical bills/education bills:** missing payments on your credit cards will wreak havoc on your credit score, and delinquent medical or student loan bills may be sent to collection agencies.
- × **The extras:** if you're having money struggles, forget about the extras, such as gym memberships, dance classes, getting nails done and other **non-essential activities.**
- × Negotiate payment plans to pay back what you owe on the extras, but other categories take precedence.

DEVELOPING A SPENDING PLAN

- ✘ Developing a spending plan can be as simple as how you spend your money and how you save your money.
- ✘ BUT.....Requires a behavioral change
 - + Kick old spending habits
 - + Sacrifice-not always monetary
 - + Commitment for everyone

WHY USE A SPENDING PLAN?

- ✘ A spending plan is an essential step in taking control of your personal finances
- ✘ Spending plans can be used to:
 - + Reach your savings goals
 - + Prepare for expenses
 - + Prepare for unexpected expenses
 - + Control how you spend money
 - + Live within in your existing means

DEVELOPING A SPENDING PLAN

- ✘ Spending plans work best on a monthly basis
- ✘ First step is to determine your net monthly income
- ✘ Net income is take home pay after taxes and deductions.

DEVELOPING A SPENDING PLAN

- ✘ Second Step to developing a spending plan is making a list of all expenses & categorizing them.
- ✘ Spending Plan Categories
 - + Fixed Monthly Expenses (Mortgage, Rent)
 - + Periodic Fixed Expenses (Car Insurance, License Plates)
 - + Flexible Expenses (Food, Hygiene, Transportation)
 - + Luxury Expenses (Magazines, Internet, Meals Out,
 - + Debt Expenses

DEVELOPING A SPENDING PLAN

- ✘ Third Step is to compare your monthly net income and total monthly expenses
- ✘ If you monthly spending plan is ending in a negative balance, you have to make choices
 - + Increase income
 - + Decrease expenses
 - + Combination of both

DEVELOPING A SPENDING PLAN

- ✘ Increase Income
 - + Turn a hobby into a \$\$ making venture
 - + Get a part-time job
 - + Garage sale
- ✘ Decreasing Expenses
 - + 1st Reduce the luxury expense category
 - + 2nd Reduce expenses in flexible expense categories

FINANCIAL MANAGEMENT DURING ECONOMIC UNCERTAINTY

- × Excessive Debt, determining which avenue to take.
 - + 1. Credit Counseling vs.
 - + 2. Debt Management
- × **Credit Counseling:** provide direction and educated financially distressed consumers how to pay debts and better manage their money.
- × **Debt Management:** is a process by which debt is eased and eventually reduced through the managing of consumer assets and direct negotiation with creditors.

FINANCIAL MANAGEMENT DURING ECONOMIC UNCERTAINTY

- × Debt management is usually offered by qualified debt "counselors" or a certified debt management company.
- × These debt management companies use what are called "debt management plans (DMPs)" by which consumers:
 - + deposit set funds each month into specific accounts that are then used by the debt management company to pay off consumer credit card bills, student loans, medical bills or any other form of unsecured debt.

FINANCIAL MANAGEMENT DURING ECONOMIC UNCERTAINTY

- × Whether it's beneficial for you to use a debt repayment program depends on many factors.
 - + Amount of debt
 - + Self-Discipline
 - + Credit Rating
- × Sometimes using DMP will not damage your credit no more than it already is damaged.

CONSUMER PROTECTION LAWS

CONSUMER PROTECTION RIGHTS

- × **Fair Debt Collection Acts:** 3rd Party Debt collectors treat you fairly and prohibits unfair, deceptive or abusive debt collection practices
 - + Must identify themselves/company
 - + Validate the debt
 - + Contact between 8am-9pm
 - + Letter to cease all contact
 - + Can't harass, oppress or abuse you
 - + Lie or intentionally deceive you
 - + Can't disclose debts to others

CONSUMER PROTECTION RIGHTS

- × **Fair Credit Billing Act:**
 - + Applies to credit card accounts
 - × Covers dispute settlement procedures or billing errors
 - × Federal law limits you liability for unauthorized charges over \$50
 - × Creditor respond in 30 days and resolve in 2 billing cycles

CONSUMER PROTECTION RIGHTS

- × Real Estate Settlement Procedures Act:
 - + Applies to pay history of your mortgage
 - × Have a right to your pay history
 - × Complete a qualified written request (send certified mail)

PROTECTING TENANTS OF FORECLOSURE ACT-2009

- × 2009 federal legislation allows most tenants with leases to keep their leases and month-to-month tenants will have at least 90 days to relocate.
- × Tenants with leases have no legal recourse against their former landlords, because they are in the same position vis-a-vis the new owner as they were with the old:
 - + The lease survives and ends as it would had there been no foreclosure.

MORTGAGE RESOURCES

**IOWA MORTGAGE HELP (IMH)
CALL TOLL FREE 1-877-622-4866**



- ✘ Operation Threshold is HUD-Approved agency and an IMH partner agency.
 - + Provide statewide counseling.
 - + By phone, internet and face-to-face counseling.
- ✘ All IMH partnership agencies are nationally trained counselors.
- ✘ All counseling services are FREE and CONFIDENTIAL.

HOW WE CAN HELP AS COUNSELORS


- ✘ Early contact with the Lender/Service
- ✘ Evaluate the Borrower's situation including their ability to repay or bring mortgage current.
- ✘ Counsel the Homeowner(s)
- ✘ Evaluate and negotiate alternatives with Lender/Service

TOP 5 REASONS FOR DEFAULT

- ✘ Job loss
- ✘ Divorce
- ✘ Illness/Medical Issues
- ✘ Unfavorable Loan Terms
- ✘ Business Failure/High Debt

ALTERNATIVES TO FORECLOSURE

OPTIONS WHERE BORROWER STAY IN HOME	OPTIONS WHERE BORROWER RELINQUISH HOME
<ul style="list-style-type: none">✘ Full/Partial Reinstatements✘ Repayment Plans✘ Forbearance Plans✘ Partial Claim✘ Loan Modifications	<ul style="list-style-type: none">✘ Short Sale✘ Deed-in-lieu✘ Assumption of Mortgage✘ Pre-Foreclosure Sale



MORTGAGE RESOURCES



Making Home Affordable Modification Program
HOME AFFORDABLE MODIFICATION PROGRAM (HAMP)

MAKING HOME AFFORDABLE MOD. PROGRAM

- ✘ Modifies 1st liens for eligible homeowners to achieve more affordable payments.
 - + -Helps homeowners keep their homes.
 - + -Reduces impact of foreclosure on communities.
- ✘ • Ends December 31, 2012.

MAKING HOME AFFORDABLE MOD. PROGRAM

- ✘ Home Affordable Modification Program (HAMP)
 - + Home Affordable Unemployment Program (UP)
 - + Principal Reduction Alternative (PRA)
- ✘ Second Lien Modification Program (2MP)
- ✘ Home Affordable Foreclosure Alternatives (HAFA)
- ✘ Options for mortgages insured, guaranteed, or held by federal government agencies:
 - + FHA (FHA-HAMP), USDA (RD-HAMP), VA (VA-HAMP)

The diagram is titled "Scenarios of HAMP Modifications". On the left, it states "Program enhancements are designed to address a variety of scenarios." A central box asks "What if the homeowner is struggling to make the mortgage payment?" and lists "Home Affordable Modification Program (HAMP)". Two arrows point from this central box to two other boxes on the right. The top right box asks "What if the homeowner is unemployed?" and lists "Unemployment Program (UP)". The bottom right box asks "What if the homeowner owes more than the home is worth?" and lists "Principal Reduction Alternative (PRA)".

STEPS TO HAMP MODIFICATION

The 1st Step for Everyone:

- ✘ Homeowner proactively seeks help from servicer or responds to servicer solicitation letter.
- ✘ Homeowner submits Initial Package:
 - + Request for Modification & Affidavit (RMA)
 - + Signed and dated 4506T-EZ
 - + Evidence of income
- ✘ Certification that homeowner not convicted of felony larceny, theft, fraud or forgery; money laundering; or tax evasion over last 10 years. (Dodd-Frank Certification Form)
- ✘ Servicer evaluates income, debt, and hardship against eligibility criteria.

MAKING HOME AFFORDABLE MOD. PROGRAM

General HAMP Eligibility Criteria

Homeowner:

- ✗ Has financial hardship and is delinquent or in imminent default
- ✗ Is owner-occupant of 1-4 unit property
- ✗ Has sufficient, documented income to support the modified payment

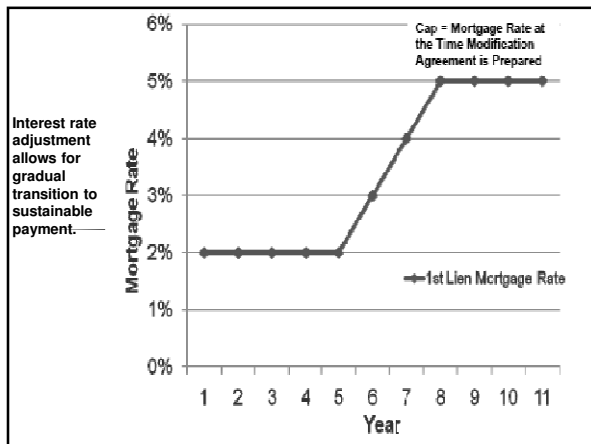
✗ Loan:

- ✗ Amount owed on first mortgage equal to or less than \$729,750
- ✗ Mortgage originated on or before January 1, 2009
- ✗ First mortgage payment (PITI + Homeowner association/condo fees) is greater than 31% of homeowner's monthly gross income

STEPS TO HAMP MODIFICATION

✗ Servicer applies the **standard modification waterfall to reduce monthly mortgage payment** to 31% of gross (pre-tax) income.

- + 1. Capitalize outstanding interest, escrow advances, out-of-pocket servicing expenses (no late fees).
- + 2. Cut interest rate to as low as 2%.
- + 3. Extend loan term up to 40 years.
- + 4. Defer portion of principal, interest-free, until loan is paid off.



STEPS TO HAMP MODIFICATION

- ✘ Servicer determines if homeowner qualifies for HAMP trial.
- ✘ Servicer offers 3-month trial period (4 months if in imminent default at start).
- ✘ Trial Period Plan Notice details terms and need not be signed by homeowner.
- ✘ Homeowner must make payment each month during trial period.
- ✘ Homeowner eligible for permanent modification after successful trial period.
- ✘ Homeowner who makes timely payments receives principal reduction of up to \$5,000:
+ \$1,000 per year for 5 years.

UNEMPLOYMENT PROGRAM OVERVIEW (U.P.)

- ✘ Any unemployed homeowner who requests assistance under HAMP must first be considered for UP.
- ✘ UP provides temporary assistance to homeowner with hardship related to unemployment.
- ✘ Assistance grants homeowners a forbearance where payments are reduced or suspended.
- ✘ Effective August 1, 2010



UNEMPLOYMENT PROGRAM OVERVIEW (U.P.)

- ✘ Is owner-occupant of 1-4 unit property.
- ✘ Makes request before seriously delinquent (three months due, unpaid).
- ✘ Is unemployed at time of request and eligible for unemployment benefits.
- ✘ Has not previously received UP forbearance.
- ✘ Amount owed on first mortgage equal to or less than \$729,750.
- ✘ Mortgage originated on or before January 1, 2009.
- ✘ Is delinquent or default is foreseeable.
- ✘ Loan has not been previously modified under HAMP.

UNEMPLOYMENT PROGRAM OVERVIEW (U.P.)

- ✘ Minimum forbearance is 3 months, but may be extended at servicer discretion.
- ✘ Homeowner's payment must be reduced to no more than 31 % of gross income.
- ✘ Servicer may suspend homeowner's mortgage payment in full.
- ✘ UP Forbearance Plan Notice provides the effective date and other details about the Forbearance Plan

PRINCIPAL REDUCTION ALTERNATIVE (PRA)



- ✘ PRA was designed to help homeowners whose homes are worth significantly less than they owe (LTV 115%+)
- ✘ Encourage servicers and investors to offer principal reduction relief
 - + Principal reduction may lower re-default risk for some loans.
 - + Available through servicers participating in HAMP.
- ✘ Each servicer required to develop guidelines around application of principal reduction.
 - + Effective October 1, 2010 - December 31, 2012.

PRINCIPAL REDUCTION ALTERNATIVE (PRA)



- ✘ Servicer must provide the following information to the homeowner:
 - + How deferred principal reduction will be applied to the loan.
 - + That principal reduction will be reported to IRS in year curtailment is applied.
 - + That homeowner should seek advice from tax professional.
 - + How homeowner may elect to decline the principal reduction.

THE MORTGAGE FORGIVENESS DEBT RELIEF AND DEBT CANCELLATION ACT 2007

If you owe a debt to someone else and they cancel or forgive that debt, the canceled amount maybe taxable.

The Mortgage Debt Relief Act of 2007 generally allows taxpayers to exclude income from the discharge of debt on their principal residence. Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure, qualifies for the relief.

This provision applies to debt forgiven in calendar years 2007 through 2012. Up to \$2 million of forgiven debt is eligible for this exclusion (\$1 million if married filing separately).

The exclusion does not apply if the discharge is due to services performed for the lender or any other reason not directly related to a decline in the home's value or the taxpayer's financial condition.

HAMP PROTECTIONS AGAINST FORECLOSURE

- ✘ Servicers may not refer homeowner to foreclosure until homeowner is determined ineligible for HAMP, or contact efforts failed.
- ✘ Servicer may not proceed with foreclosure sale until homeowner determined ineligible, declines HAMP, or contact efforts have failed.
- ✘ Servicer's attorney or trustee cannot conduct a foreclosure sale without written certification that a homeowner is not HAMP-eligible.
- ✘ In most cases, if not approved, homeowner benefits from 30-day waiting period before foreclosure sale.

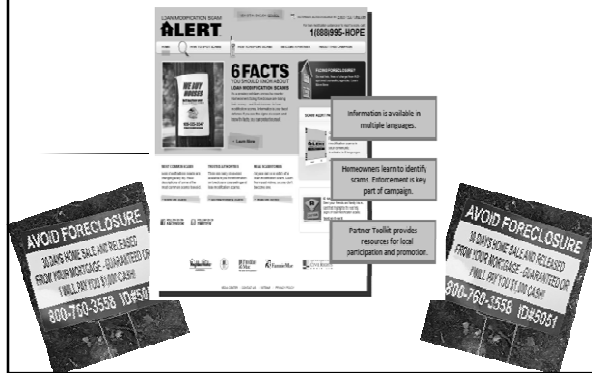
IOWA-JUDICIAL FORECLOSURE STATE

- ✘ The lender must give the borrower a notice of the right-to-cure default before initiating foreclosure.
- ✘ The lender must file a written petition in Iowa District Court in the county where the property is located.
- ✘ The borrower must be served a copy of the petition, usually by the county sheriff.
- ✘ After getting the petition, the borrower has 20 days to respond.

BORROWERS HAVE MANY OPTIONS

- ✦ As Housing Counselors, we know the alternative options & can advocate for our clients.
- ✦ Each borrower and loan situation is individually assessed.
- ✦ Just because a lender has said no to an option in the past doesn't mean they won't say yes to others.

LOAN MODIFICATION SCAM ALERT



SIX RED FLAGS TO INDICATE THAT YOU MAY BE DEALING WITH A LOAN MODIFICATION SCAMMER

- ✦ **A company/person asks for a fee in advance to work with your lender to modify, refinance or reinstate your mortgage.**
 - + They may pocket your money and do little or nothing to help you save your home from foreclosure.
- ✦ **A company/person guarantees they can stop a foreclosure or get your loan modified.**
 - + Nobody can make this guarantee to stop foreclosure or modify your loan. Legitimate, trustworthy HUD-approved counseling agencies will only promise they will try their very best to help you.
- ✦ **A company/person advises you to stop paying your mortgage company and pay them instead.**
 - + Despite what a scammer will tell you, you should never send a mortgage payment to anyone other than your mortgage lender. The minute you have trouble making your monthly payment, contact your mortgage lender.

SIX RED FLAGS TO INDICATE THAT YOU MAY BE DEALING WITH A LOAN MODIFICATION SCAMMER

- × **A company pressures you to sign over the deed to your home or sign any paperwork that you haven't had a chance to read, and you don't fully understand.**
 - + A legitimate housing counselor would never pressure you to sign a document before you had a chance to read and understand it.
- × **A company claims to offer "government-approved" or "official government" loan modifications.**
 - + They may be scam artists posing as legitimate organizations approved by, or affiliated with, the government. Contact your mortgage lender first. Your lender can tell you whether you qualify for any government programs to prevent foreclosure. And, remember, you do not have to pay to benefit from government-backed loan modification programs.
- × **Solicitation from a company/person you don't know, asks you to release personal financial information online or over the phone.**
 - + You should only give this type of information to companies that you know and trust, like your mortgage lender or a HUD-approved counseling agency.

POSSIBLE TITLES OF SCAM ARTISTS INCLUDE:

- × Loan Modification Consultant
- × Forensic Loan Auditor
- × Mortgage Loan Auditor
- × Foreclosure Consultant
- × Foreclosure Specialist
- × Mortgage Consultant
- × Short Sale Negotiator



POSSIBLE TITLES OF SCAM ARTISTS INCLUDE:

- × The best way to spot a scammer is to know the signs of a loan scam - not focus on titles.
- × In some cases, even trusted professionals like real estate agents or attorneys have been involved in loan modification scams.



HOW TO REPORT SCAMS...

Please take action by doing any or all of the following:

- × Call the Homeowner's Hope Hotline: **1-888-995-HOPE (4673)**
Assistance is available in 20 languages upon request.
- × File a complaint online through the Loan Scam Prevention Network. Submit your online complaint form in English, Spanish, Korean, Chinese
- × Call the Federal Trade Commission (FTC) at 877-FTC-HELP (1-877-382-4357) or submit your complaint online in English or in Spanish.
- × You can contact your state Attorney General or another local authority in your state. Check here for a list of contact information for Attorneys General.

Together, we can get scammers off the street.

RESOURCE LINKS

- × **Budget Information**
+ <http://www.smartaboutmoney.org/economicsurvivaltips/tabid/554/Default.aspx>
- × **Iowa Mortgage Help web link**
+ <http://www.iowamortgagehelp.com/about/trust.cfm>
- × **Community Action Agencies by county**
+ http://www.iowacommunityaction.org/Agency/Index_Operation_Threshold.cfm
- × **Loan Modification Scam Alert web link**
<http://www.loanscamalert.org/default.aspx>
- × **The Mortgage Forgiveness Act of 2007**
<http://www.irs.gov/individuals/article/0,,id=179414,00.html>

RECAP...

- × Dealing with debt/budgeting
- × Consumer Protection Laws
- × Making Home Affordable
- × Loan Modification Scams

THANK YOU!!

- × Lekeisha Veasley, Housing Program Manager
+ 319-292-1822
+ lveasley@operationthreshold.org
- × Kelli Black, Intake Specialist/Program Support
+ 319-292-1823
+ kblack@operationthreshold.org
