

LOSS MITIGATION

Loss Mitigation is a separate department within mortgage companies that assists borrowers who have defaulted on their mortgage.

Some mortgage companies offer loss mitigation "tools" or "work out" programs that a borrower applies for to cure the loan default.

The loss mitigation workouts available to the borrower are determined based upon loan type. Mortgage loan types are either FHA, conventional, VA, or contract for deed.

Both lenders and borrowers have responsibilities under the loss mitigation work out programs.

A borrower must submit an application for loss mitigation. An application usually includes the following information:

- Letter of hardship explaining the reason for default
- Last years income tax verification
- Two most recent pay stubs
- Two most recent bank statements
- Financial Worksheet

There are five loss mitigation work out programs. They are as follows:

1. Special forbearance:

A written repayment agreement based upon the borrowers financial ability to repay.

2. Loan Modification:

A permanent change in one or more of the terms of the mortgage loan. Such terms included all or a combination of the following: principal balance, length of loan, interest rate, and monthly payment.

3. Partial Claim: (only for FHA mortgages)

A payment made by HUD to your lender in the amount necessary to bring your mortgage current. The borrower signs a promissory note and a lien is placed on your property until the promissory note is paid in full. This is another mortgage on the property generally repaid when the first mortgage is satisfied.

4. Pre-foreclosure Sale or Short Sale:

The borrower sells the property using the proceeds from the sale to satisfy the mortgage debts before a sheriff's sale occurs.

5. Deed in Lieu of Foreclosure:

The borrower voluntarily deeds the property back to the mortgage company and in exchange is released from all obligations under the mortgage.