



Mortgage Fact Sheet

From the Office of Minnesota Attorney General Keith Ellison

Many people struggle to pay their mortgages. This fact sheet provides basic information about mortgage modifications and other potential relief for homeowners facing the potential loss of their home.

Mortgage Modifications

What is a mortgage modification?

Many homeowners seek mortgage modifications because they struggle to make their mortgage payments. Modifying a mortgage may be available if a homeowner can show that he or she can afford a reduced payment. The modification may take the form of permanent interest rate reductions, more time to pay off the mortgage (i.e., extension of the amortization period), principal forbearance (i.e., adding part of the amount owed to the end of the mortgage), convert a variable interest rate to a fixed interest rate, capitalizing the loan (i.e., adding all delinquencies to be paid at the end of the loan), and, in some cases, principal reduction.

How do I request a modification?

Many mortgage servicers offer in-house modifications. Each mortgage servicer has its own modification eligibility rules and application procedure, so borrowers should contact their mortgage servicer to determine what assistance it can provide. Borrowers having trouble during the process may contact the Minnesota Attorney General's Office.

What is a trial modification?

A mortgage servicer may require a trial modification in order to evaluate your ability to make the reduced payments before authorizing a permanent modification. The trial period is usually three months but can sometimes take longer. During the trial period, the borrower will make reduced payments to the mortgage servicer, and at the conclusion of the trial period, the borrower will then be reviewed for a permanent modification. Be aware that a mortgage servicer may affect your credit score during a trial modification by reporting to the

credit reporting companies that your payments are only partial. The mortgage servicer may agree to report trial modification payments as "paid as agreed" to reduce the effect on a homeowner's credit score. And, if you did not previously have an escrow account (an additional account held by the servicers that homeowners pay into monthly to cover taxes and insurance premiums), the mortgage servicer may require one for the modified mortgage. The additional escrow payment will increase the modified monthly mortgage payment.

What else do I need to know about modifications?

Mortgage servicers must give you a reasonable amount of time to assemble the required documents for a modification review. Once your servicer receives a complete application, it must review your mortgage for all available relief options before pursuing a foreclosure sale. As mentioned above, there may be credit reporting consequences during the trial modification period. If a borrower is not approved for a permanent modification, the borrower's credit report generally will not be corrected and his or her credit score may be lowered. In addition, the borrower may be charged late fees because the borrower is paying less than the full payment during the trial period, and if the bank continues with the foreclosure process, the borrower may continue to accrue foreclosure fees.

What if I don't qualify for a modification?

There are still options. Borrowers should ask their mortgage servicer if they're eligible for forbearance (i.e., the mortgage servicer allows the borrower to pay less than the full mortgage amount for a period of time and a lump sum payment of the remaining delinquency at the end) or a repayment plan (i.e., the borrower pays an increased amount for several months to bring the loan current). Keep in mind that a forbearance plan does not eliminate the debt. Instead, the borrower will owe the forbearance amount at a later date (possibly with interest).

Steer Clear of Mortgage Modification Scams

Be wary of people that offer assistance with a modification for a fee. Borrowers can always work with their bank on their own for free, and help is available for free from HUD-approved non-profit organizations. If a borrower encounters difficulty dealing with a mortgage servicer, the borrower can always contact the Minnesota Attorney General's Office, too. In addition, some fraudsters have called homeowners pretending to be the homeowner's mortgage servicer and asking for private financial information. Do not provide private financial information to people who call you unexpectedly—call the bank at its known phone number to be sure you're talking to a bank representative!

Refinancing Your Loan

Interest rates are historically low right now so you may be able to refinance your mortgage. Refinancing your mortgage means getting a new mortgage to replace the one you have. Contact your lender to see if it will refinance your mortgage. You may also try refinancing through another lender or contact a U.S. Department of Housing and Urban Development approved nonprofit housing counselor for additional assistance.

Some lenders won't let homeowners—including those who are current on their mortgages—refinance to take advantage of these low market rates because the homeowners are “underwater” on their home mortgages (e.g., owe more on their mortgages than their homes are worth). If this applies, a homeowner may wish to see if he or she is eligible for the Home Affordable Refinance Program (HARP), a federal refinancing program available to borrowers whose mortgages are owned or guaranteed by Freddie Mac or Fannie Mae.

Steer Clear of Refinancing Scams

Some homeowners become the target of fraudulent refinancing offers. Such fraudulent refinancing offers may begin with a call from an “underwriter,” who may pretend the call is from the homeowner's current mortgage lender and make a refinance offer that is hard to pass up (whether due to low interest rate, no closing costs, guaranteed approval, or the like). If it sounds too good to be true, it probably is!

Short Sales

Millions of Americans are underwater on their home mortgages, and may find that they need a short sale in order to move. A short sale is when a bank allows a homeowner to sell the home for less than the principal balance of the mortgage. Banks may still hold the seller liable for the deficiency (i.e., the difference between the principal amount owed on the mortgage and the selling price). If the seller has a second mortgage, the seller may be liable to the owner of the second mortgage debt for any deficiency as well. Keep in mind that banks have been known to drag their feet and take months to evaluate short sale requests. There may be income tax consequences to a short sale, so borrowers may want to consult with a tax advisor.

Deed-in-Lieu-of-Foreclosure

Deed-in-Lieu-of-Foreclosure is when a homeowner gives the home back to the bank instead of going through a foreclosure. In return, the bank releases the homeowner from any remaining debt, late fees, and interest owed on the mortgage. This can benefit homeowners who cannot afford their mortgage but are unable to obtain a modification or restructure. A Deed-in-Lieu may have less impact on your credit report than a foreclosure. As with a short sale, a homeowner considering a Deed-in-Lieu should ask the bank if it will hold the homeowner liable for the difference between the appraised value and the amount owed on the mortgage. Because a Deed-in-Lieu can also have tax implications, you should consult with a tax professional if you believe a Deed-in-Lieu may be right for you.

Finding a Reputable Foreclosure Counselor

Because there are fraudsters that prey on those who have difficulty making their mortgage payments— whether by charging fees for “help” negotiating a modification or otherwise—borrowers should use a HUD-approved counseling agency. Borrowers can search for HUD-approved counseling agencies using the information below:

**U.S. Dept. of Housing and Urban
Development (HUD)**

Minnesota Field Office
920 2nd Avenue South, Suite 1300
Minneapolis, MN 55402-4012
(612) 370-3000
apps.hud.gov/offices/hsg/sfh/hcc/fc/

Minnesota Homeownership Center

1000 Payne Avenue, Suite 200
St. Paul, MN 55130
(651) 659-9336
www.hocmn.org

Minnesota Housing Finance Agency

400 Wabasha Street, Suite 400
St. Paul, MN 55102
(651) 296-7608 or (800) 657-3769
www.mnhousing.gov

Lutheran Social Services Financial Counseling

424 West Superior Street, Suite 600
Duluth, MN 55802
(888) 577-2227 or (218) 529-2227
www.lssmn.org/debt

Tell the Regulators

If a homeowner has a problem with a bank or mortgage company, the borrower should let the regulators know. The Office of the Comptroller of the Currency is the federal agency that licenses and has authority to regulate national banks, and it may be reached as follows:

Office of the Comptroller of the Currency

Customer Assistance Group
1301 McKinney Street, Suite 3450
Houston, TX 77010
(800) 613-6743
www.helpwithmybank.gov

State chartered banks and mortgage servicers are subject to regulation by the Minnesota Department of Commerce, which may be reached as follows:

**Minnesota Department of Commerce
Enforcement Division**

85 East Seventh Place, Suite 280
St. Paul, MN 55101
(651) 539-1500
www.mn.gov/commerce

For Additional Assistance

For additional assistance, homeowners may want to contact:

**Office of Minnesota Attorney General
Keith Ellison**

445 Minnesota Street, Suite 1400
St. Paul, MN 55101
(651) 296-3353 (Twin Cities Calling Area)
(800) 657-3787 (Outside the Twin Cities)
www.ag.state.mn.us

Consumer Financial Protection Bureau

1700 G Street NW
Washington, DC 20552
(855) 411-2372
www.consumerfinance.gov

