



Community Services of Arizona

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Loss Mitigation Options

*The following is for informational use only
Your Lender and/or Servicer may not provide any or all options*

Reinstatement: The easiest way to cure a delinquency is to pay the lender everything is owed. This includes missed payments, any late fees associated with these payments, and any other fees which the lender charges as a result of the delinquency. The reinstatement period is up until 5 business days prior to the trustee's sale.

Repayment Plan: This is a written agreement between the homeowner and the lender to help recover the missed payments. Generally these agreements require higher payments than the regular monthly mortgage amount for a short period of time, until the loan is brought up-to-date. The Homeowner must not agree to a payment plan they cannot honor; but must be willing to pay what they can realistically afford. If the Homeowner fails to meet the terms of the agreement, they will probably receive no additional help from the lender.

Modification: A loan modification involves changing one or more terms of a mortgage.

- Interest Rate Reduction – reduce interest rates to reflect current market rates.
- Revise the term of the mortgage - change the mortgage product from an adjustable rate to a fixed rate.
Example: extend the loan term from 30 years to 40 years.
- Capitalize delinquent payments - add delinquent payments to the mortgage balance. New monthly payments are then calculated.
- Principal Reduction – The lender agrees to reduce the principal balance owed on the Mortgage, typically to the amount equal to the appraised home value.

(ONLY IN EXTREME CASES WILL THE LENDER CONSIDER THIS OPTION)

Forbearance Agreement: The lender will allow the Homeowner for a period of time (3 to 6 months generally) during which to make either lower payments or no payments at all. Unless the loan term is extended, later payments generally will have to be higher than the original monthly mortgage payments until the loan is up-to-date again.



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Special Forbearance: (Applicable to FHA-insured loans only) The lender may allow partial payments for up to 18 months to allow the Homeowner to get back on track. The lender may also offer "partial claim", or advance funds, to help the homeowner become current.

Partial Claim - Offered by the FHA that allows the borrower, with assistance from a lender to obtain an interest-free loan from HUD to bring their mortgage payments current. The borrower must sign a Promissory Note, and a lien will be placed until the promissory note is paid in full.

Refinance: This will usually not be an option if you are seriously delinquent on the current mortgage (more than 3 payments late). If the Homeowner is current, however, and there is equity in the property, this might be an option.

Second Mortgage (Equity Loan): Possible even if the Homeowner is seriously delinquent if there is enough equity in their home. Not generally feasible when the Homeowner is having trouble making first mortgage payments - a higher interest rate and another payment would only be compounding the problem. May be used to eliminate consumer debt.

Bankruptcy: A Chapter 13 (W.E.P.) bankruptcy may help the Homeowner save their home from foreclosure if all other options have failed.

Note: Consult a bankruptcy attorney.

Foreclosure: The lender will foreclose and take the Homeowners home.

Note: lender can file a deficiency judgment for the difference in value between the mortgage balance and any loss the lender might suffer where property values have declined. Deficiency judgments are seldom used in Arizona.

Deed in Lieu of Foreclosure: This option, which must be done with the lender's permission, means the Homeowner deeds their home back to the lender.

This saves the lender money and time and avoid having a foreclosure on the Homeowners credit report.

Short Sale (Pre-Foreclosure Sale for FHA-insured loans): In this case the Homeowner will petition the lender to allow them to sell the house at its current market value which is less than the loan balance. If the lender agrees, the Homeowner can enlist the aid of a realtor and try to sell their home even though the purchase price will be less than the outstanding balance. A lender may agree to a short sale because if the property is foreclosed upon, the lender will have to sell the house anyway. With a short sale, the Homeowner saves Lender time and foreclosure expenses by finding someone who wants to buy their house.

Note: FHA requires the Homeowner to receive Pre-foreclosure Sale counseling by a HUD Certified Counseling Agency.



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