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## Answers to Questions About New Mortgage Modification Program

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### **6:30 p.m. | Updated to add new detail and questions and answers**

The federal government [announced new initiatives](#) on Friday to help people who are having trouble paying their mortgages. Here are some questions and answers about the efforts.

*Q. I am currently unemployed. What sort of mortgage payment reduction can I qualify for?*

A. The company servicing your mortgage will be required to offer at least three, and up to six, months of reduced payments. During that time, you won't have to pay more than 31 percent of your monthly income toward the mortgage.

You have to live in the home to qualify, and the mortgage balance has to be less than \$729,750, with a monthly payment that represents more than 31 percent of the gross monthly income of all borrowers who signed your mortgage, before you subtract anything for taxes or deductions. If one person in the household works and one is unemployed, you will not be eligible if the loan payment is under 31 percent of your current total household income.

Also, you need to prove that you are receiving unemployment benefits and ask for help within 90 days of any late payments.

The lowered payments would revert to the regular amounts once you got a job, if you became employed before the three- to six-month period ended.

*Q. I'm underwater, since my mortgage is for more than my home is worth. What sort of help might I get from my mortgage company?*

A. The company that controls your mortgage might reduce your principal, something that wasn't happening much before. The government is offering additional incentives for companies to do so.

Your property will need to be worth at least 15 percent less than the value of your first mortgage for you to qualify. If your mortgage has already been modified to lower your interest and monthly payments, you may still be eligible.

To qualify, you need to live in your home, have a mortgage under \$729,750 and have a mortgage payment more than 31 percent of your gross monthly income.

Any principal forgiveness will take place in three equal amounts over the course of three years but only if you make your mortgage payments on time.

But banks are not required to participate.

*Q. What about the new refinancing option with another lender for people who are underwater?*

A. If you're current on your payments with your existing mortgage provider, you may be able to refinance into a loan through the federal government's Federal Housing Administration program and have some of your principal forgiven. Here, too, you will need to be occupying your home to qualify; you can't be an investor or landlord. You will have to document your income to apply.

Your current mortgage holder is not required to write down any principal, but if it does decide to participate, it will have to agree to write down at least 10 percent of the value of your first mortgage. And your current loan cannot itself be an F.H.A. mortgage.

Also, your payment under any new F.H.A. loan must be less than 31 percent of your gross monthly income, and your total household debt can't be more than about 50 percent of your income unless you have an excellent credit history.

*Q. Who decides how much my home is worth and how?*

A. There will be a reappraisal, which raises an odd scenario. Normally, when selling

your home, you want the appraisal to be at a high value. Here, however, the lower the value of your home the more likely you are to be underwater enough to qualify for help.

*Q. What if there is a second mortgage on my home?*

A. There are now additional incentives in place to write down amounts on second mortgages to help people become eligible for the F.H.A. refinancings. You may be eligible for help with a second mortgage even if you've already qualified for help with a first mortgage.

*Q. Is there someplace I can go to get more details?*

A. More information is available on the [Treasury Department's Web site](#).

*Q. How will a loan modification affect my credit score?*

A. A loan modification may not affect your credit score — at least in the near future.

If your mortgage holder writes down some of your principal, there's a chance that won't be a black mark on your credit report, but the exact impact is still unclear.

As of November, the credit reports of borrowers who had been participating in earlier mortgage modification program weren't necessarily affected just by virtue of their participation. That's because the Treasury Department and the Consumer Data Industry Association, which represents credit reporting agencies, created a new code for loans modified under a federal government plan. They recommended that lenders use the code but did not require it. In the near term, FICO is ignoring that code in its credit scoring formula.

It's possible, however, that banks will treat some or all of the new principal forgiveness programs in a different way that could harm participants' credit reports. A spokesman for the Consumer Data Industry Association said he was still working out what code or codes ought to apply. The federal agencies involved do not tell lenders how to report participation in the programs.

Meanwhile, if you participate in the temporary payment reduction program for unemployed people, you will probably see some damage to your credit report.

*Q. When should I call my mortgage servicer?*

A. For unemployed borrowers, this should all start in the next couple of months. Some servicers may already have a program in place. The other programs may not begin until the fall.

Your lender is supposed to contact people who are eligible for help, but it's probably best to call in periodically yourself for updates if you think you may be eligible.

*Q. Are lenders and servicers really going to be prepared to handle the volume of inquiries?*

A. Many people attempting to modify their mortgages so far have been frustrated by long hold times, conflicting information and lost paperwork. These new programs won't make it any easier for the companies involved. Make sure to write down the names of everyone you speak to about your mortgage and save copies of all paperwork.

*Q. I don't need any help. Am I paying for all of this through my taxes?*

A. The money is coming out of existing TARP funds, so there is no new money going toward these initiatives. So far, at least.