

# Certified Distressed Property Expert

*If we all did the things we are capable of doing  
we would literally astound ourselves.*

-Thomas Edison



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# National Delinquency Numbers

## Mortgage Bankers Association



# National Numbers

## 2nd Quarter 2012 – All Loans

**4.27% in Foreclosure**

**7.35% in Default (30+ days late)**

**11.62% Total**

Mortgage Bankers Association

Based on 42.8 million mortgages

# National Numbers – Prime Loans

## 2nd Quarter 2012

**3.12% in Foreclosure**

**4.70% in Default (30+ days late)**

**7.82% Total**

Mortgage Bankers Association

Based on 42.8 million mortgages



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# National Numbers – Subprime Loans

## 2nd Quarter 2012

**13.63% in Foreclosure**

**20.34% in Default (30+ days late)**

**33.97% Total**

Mortgage Bankers Association

Based on 42.8 million mortgages



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# National Numbers – FHA Loans

## 2nd Quarter 2012

**4.23% in Foreclosure**

**11.54% in Default (30+ days late)**

**15.77% Total**

Mortgage Bankers Association

Based on 42.8 million mortgages



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# National Numbers – VA Loans

## 2nd Quarter 2012

**2.28% in Foreclosure**

**6.44% in Default (30+ days late)**

**8.72% Total**

Mortgage Bankers Association

Based on 42.8 million mortgages



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

More than 7 out of 10  
homeowners go into foreclosure  
without **VISIBLE**  
intervention.  
*(You are the exception)*



CERTIFIED DISTRESSED  
PROPERTY EXPERT®



# Foreclosure Explained

*Solving the foreclosure crisis  
one homeowner at a time.*



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# Foreclosure is a Process

- *Default*
  - Must miss a payment, default on payment is the only way a property can enter the foreclosure process.
  - Can also be a missed payment to local taxing authority, a condo association or homeowners association.
- *Legal Notice*
  - The lender or foreclosing party must notify the owner that they are entering into the foreclosure process.
  - Personal service of a document or if the owner cannot be located through publication in a legal journal.
    - Florida = Notice of *Lis Pendens* (or notice of a lawsuit)
    - California = Notice of Default or NOD
    - Complaint, Notice of Sale or a Petition



# Foreclosure is a Process

- *Bank Sale or Auction Date*
  - Homeowner informed of bank sale or auction date
  - Foreclosing entity will gain control of the property
- *Redemption Period*
  - Not all states have a redemption period
  - Period of time in which the homeowner may present payment and regain possession of his property



# Possible Consequences



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# Reasons to Avoid Foreclosure

- ✓ You will always have to disclose on any mortgage application and many job applications
  - Foreclosure is the only credit item that will affect your rates even when it is off your report
- ✓ Credit scores can be lowered by 300+ points
  - most devastating credit issue you can have in relation to future credit availability
- ✓ You will be ineligible for a government insured loan for 5 to 7 years (only 2 years in a short sale)



# Reasons to Avoid Foreclosure

- ✓ You may end up with Deficiency Judgment\*
- ✓ Many employers run credit checks
- ✓ Many current employers run credit checks and a foreclosure can put a current position in jeopardy
- ✓ Security clearances, government positions
  - Military and law enforcement and more

\*Not applicable in some states. In a short sale, deficiency judgments may be waived during negotiations.



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# Reasons to Avoid Foreclosure

- ✓ As your CDPE agent I will explore every option with you and work towards a resolution.
- ✓ While it may not seem like it now, there will come a time when you look back on this situation and will want to know you did everything you could.



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# Solutions



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

*Solving the foreclosure crisis  
one homeowner at a time.*



# Reinstatement

- If reason for distress was temporary and resolved
- Can be done up to day of bank sale
- You must be able to pay all the payments and late fees due and your mortgage will remain the same



# Reinstatement Example

- Homeowner misses 4 payments on a \$1,500 a month loan and the foreclosure process has been initiated.

## Reinstatement Amount:

4 Month's Payments @ \$1,500/month	\$6,000
Late Fees	\$300
Legal Fees	\$1,200
Processing Fee	\$250
<b>Total Reinstatement</b>	<b>\$7,750</b>



## Forbearance or Re-Payment Plan

- If reason for distress was temporary and resolved
- Requires lender approval
- You may be allowed to make your back payments over time
- Normally does not fully reinstate mortgage until plan is completed



# Forbearance Example

- 4 payments missed @ \$1,500 a month loan and the foreclosure initiated

Reinstatement Amount:

4 Month's Payments @ \$1,500/month	\$6,000
Late Fees	\$300
Legal Fees	\$1,200
Processing Fee	\$250
<b>Total Reinstatement</b>	<b>\$7,750</b>

Bank Allows payments to be broken up over the next 12 months:

Total Reinstatement	\$7,750
Reinstatement Payment 12 months	\$646
<b>Current Payment</b>	<b>\$1,500</b>
Monthly Repayment	\$646
<b>12 Month's Payments Each</b>	<b>\$2,146</b>



# (!) Insider Tip

## **Forbearance Plan (there is a catch)**

Typically your mortgage is not fully reinstated through a forbearance plan until all the payments are made in full. If a homeowners misses just one payment they can end up in the same stage of the foreclosure process they were in previously.



# Sell the Property

- If you have equity, can sell and cure foreclosure
- You may have more time than you think to sell the property after receiving foreclosure notice



## Rent the Property

- Can your property rent for the mortgage amount or more?
- In many cases rent does not cover full expense of property ownership
- Also need to factor in insurance, taxes, and repairs



# Refinance

- If you have sufficient equity and strong enough credit score
- Typically a short term solution since your payments almost always go up





# Mortgage Modification

- Requires lender cooperation
- Modifies loan and often reduces payment
- You will have to qualify with financial information most of the time like a full doc loan
- [MakingHomeAffordable.gov](http://MakingHomeAffordable.gov)



# Mortgage Modification

- You must have verifiable means of income.
- You should be certain you can afford the modified mortgage payment.
- You can pursue a mortgage modification and prepare for a short sale simultaneously.



# Deed-In-Lieu of Foreclosure

- “Friendly” Foreclosure
- Sign deed over to bank rather than go through foreclosure process
- May still be reported as a foreclosure
- Typically only works with one mortgage



# Bankruptcy

- Will stall a foreclosure and if payments are lowered to where property can be afforded may save property
- Very difficult to sell property once in the process, requires trustee cooperation
- Will only stall a foreclosure – will not eliminate mortgage



# Servicemembers Civil Relief Act (SCRA)

- Provides temporary relief to military personnel
- Must show mortgage was entered into prior to beginning active duty
- Must still be owned by military member
- Must show that service materially affects ability to pay



# Short Sale

- A short sale can be negotiated if the homeowner has:
  - Financial Hardship
  - Monthly Shortfall on Financial Worksheet (or pending shortfall)
  - Does not have significant assets to assist in paying down the mortgage



# Definition

- A homeowner is ‘short’ when:

*A borrower owes an amount on his property that, when combined with closing costs and commission, is higher than current market value.*

- A short sale occurs when:

*A negotiation is entered into with the homeowner’s mortgage company or companies to accept less than the full balance of the loan at closing. A buyer closes on the property and the property is ‘sold short’.*



# What a Short Sale is Not

- If you do not have a financial hardship then you will most likely not qualify for a short sale
- A short sale is only for those who meet all requirements



CERTIFIED DISTRESSED  
PROPERTY EXPERT®



# Two Major Consequences

- Cancellation of Debt Tax Liability
  - “Phantom Tax”
    - Mortgage Forgiveness Debt Relief Act of 2007
    - Special IRS Section
- Deficiency Judgment
  - Lender Collection Rights
- Other Issues



# Mortgage Forgiveness Debt Relief Act of 2007

- Originally HR3648
- Prior to passage any debt forgiven was “cancelled” and was required to be claimed as 1099 income
- Signed into law on December 20<sup>th</sup> 2007
- Currently expires at the end of 2012



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# MFDRA Details, Phantom Tax

- January 1<sup>st</sup> 2007 to December 31<sup>st</sup> 2012
  - Eliminates Phantom Tax.
  - Debt must have been incurred to acquire a principal residence.
  - Cancelled debt up to \$2,000,000 is eligible.
  - Sets forth rules for determining the allowable amount of the exclusion for taxpayers with non-qualifying indebtedness and taxpayers who are insolvent.
  - *Debt from a second (non-acquisition) mortgage or HELOC is not eligible (unless used to improve basis of property).*
  - *Debt from a cash-out refinance is not eligible (unless used to improve basis of property)*
  - *Cancelled debt from investment properties and second homes is not eligible.*



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# Deficiency Judgment

- In 100% of Foreclosures the homeowner is exposed to a Deficiency Judgment
- In some Short Sales lender waives right to Deficiency
- In almost all cases a short sale will result in lower possible deficiency judgment



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# THE SHORT SALE PROCESS

## YOUR INVOLVEMENT



# SHORT SALE PROCESS

## Owner Involvement

- Complete or provide all necessary documentation
  - Signature Authorization (FORM A)
  - Short Sale Disclosure (FORM P)
  - Hold Harmless (FORM C)
  - Homeowner Document Checklist, Provide all Documents (FORM E)
  - Homeowner Financial Worksheet (FORM F)
- Keep property presentable and ready to sell
  - Homeowner Property Checklist (FORM G)
- Be available to communicate with mortgage company if necessary



CERTIFIED DISTRESSED  
PROPERTY EXPERT®

# Why Hire a CDPE?

- Over 40,000 agents nationwide
- Member of an organization where agents negotiate hundreds of short sales on a weekly basis
- Extensive training
- Expert support on an as-needed monthly basis
- Complete system to give you the best chance at successfully avoiding foreclosure



CERTIFIED DISTRESSED  
PROPERTY EXPERT®