



# Credit Union Mortgage Association

## Mortgage Delinquency & Collections Conference

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# Agenda

- **Delinquencies**
  - **Collection Efforts**
  - **Modification Options and Procedures**
  - **Loans With PMI**
- **Acquiring the Property**
  - **Deed in Lieu of Foreclosure (DIL)**
  - **Short-Sale**
  - **Foreclosure**
- **After Foreclosure**
  - **Handling REO's**
  - **Legal Issues**
  - **Accounting Concerns**



# When a Loan First Goes Delinquent

## 16 days

- Payment reminder notice mailed
- Begin collection calls with a minimum of two calls per week until contact is established

## 30 days

- Delinquent letter mailed
- Continue collection calls
- Send Delinquent Report to credit union (also available on e-Status)
- Delinquent status reported to credit bureau

## 45 days

- 2nd payment reminder notice mailed
- Continue collection calls



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# When a Loan First Goes Delinquent, *cont'd*

## 60 days

- Delinquent letter mailed
- Continue collection calls
- Send Delinquent Report to credit union (also available on e-Status)
- Delinquent status reported to credit bureau

## 75 days

- 3<sup>rd</sup> payment reminder notice mailed
- Send foreclosure prevention solicitation letter
- Continue collection calls



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# When a Loan First Goes Delinquent, *cont'd*

## 90 days

- Delinquent letter mailed
- Continue collection calls
- Send Delinquent Report to credit union (also available on e-Status)
- Contact credit union for options and/or further action:
  - Member wishes to bring loan current: Work with credit union to determine possible solutions for work-out agreement on a case by case basis
  - Member is unable, or unwilling, to bring loan current:
    - Deed in Lieu of Foreclosure (DIL)
    - Short-sale
    - Foreclosure



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**Please keep in mind that often times CUMA collection efforts are being done in conjunction with the credit union's collection staff.**



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# **OK, The Loan is 90 Days Late. Now What?**

**Option A) Loan Modification**

**Option B) DIL / Short-Sale / Foreclosure**

**At the end of 90 days, something needs to be done!**



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# Option 'A'

# Loan Modification



# Loan Modification Procedures

- **Modification package mailed to member**
- **Modification package requested by the member before going delinquent (in some cases)**
- **Package and required supporting documents are returned and reviewed by CUMA Servicing staff**
- **Summary / recommendation presented to the credit union for discussion and/or approval**
- **Negotiations**



# Loan Modification Procedures, *cont'd*

- **Loan Modification is approved:**
  - Prepare modification agreement
  - Contact member and send out agreement
  - Record modification agreement (if required)
  
- **Loan Modification is denied:**
  - Member is sent denial letter with explanation
  - If they cannot otherwise bring loan current, proceed with acquiring the property (DIL/short-sale/foreclosure)



# Suggested Loan Modification Options

- Lower the interest rate
- Extend the term (from 30 to 40 years)
- Convert to Interest-Only
- All of the above





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### Options for Loan Modification Steve Smith April 21, 2010

#### Current Loan Information:

Loan Program:	30 YR FIXED
Principal Balance:	\$363,880.33
Original Balance:	\$370,000.00
Interest Rate:	6.000%
Closing Date:	8/3/2007
Original LTV:	77%

#### Payment Information:

Current Due Date:	<b>February 1, 2009</b>
P&I Payment:	\$2,218.34
Escrow Payment:	\$465.84
Total Current Payment:	<b>\$2,684.18</b>

#### Property Address:

4805 Main Street  
Anywhere, VA 22031

#### Proposed Date Modification will take effect:

April 1, 2009

#### Modification Option One:

Program:	Same Rate/ 40 Yr. Amort.
Interest Rate:	6.00%
Amortization:	40 Years
Interest Payment:	\$2,002.12
Escrow Payment:	\$465.84
<b>New Total Payment:</b>	<b>\$2,467.96</b>
<b>Monthly Reduction:</b>	<b>\$216.22</b>

#### Modification Option Two:

Program:	Same Rate/ Interest Only
Interest Rate:	6.00%
Amortization:	Interest Only
Interest Payment:	\$1,819.40
Escrow Payment:	\$465.84
<b>New Total Payment:</b>	<b>\$2,285.24</b>
<b>Monthly Reduction:</b>	<b>\$398.94</b>

#### Modification Option Three:

Program:	Reduced Rate/ Fixed Amort.
Interest Rate:	3.00%
Amortization:	30 years
P&I Payment:	\$1,534.13
Escrow Payment:	\$465.84
<b>New Total Payment:</b>	<b>\$1,999.97</b>
<b>Monthly Reduction:</b>	<b>\$684.21</b>

#### Modification Option Four:

Program:	Reduced Rate/ Interest Only
Interest Rate:	3.00%
Amortization:	Interest Only
Interest Payment:	\$909.70
Escrow Payment:	\$465.84
<b>New Total Payment:</b>	<b>\$1,375.54</b>
<b>Monthly Reduction:</b>	<b>\$1,308.64</b>

#### Modification Option Five:

Program:	Reduced Rate/ 30 Yr. Amort.
Interest Rate:	2.00%
Amortization:	30 years
P&I Payment:	\$1,344.97
Escrow Payment:	\$465.84
<b>New Total Payment:</b>	<b>\$1,810.81</b>
<b>Monthly Reduction:</b>	<b>\$873.37</b>

#### Modification Option Six:

Program:	Reduced Rate/ 40 Yr. Amort.
Interest Rate:	2.00%
Amortization:	40 Years
Interest Payment:	\$1,101.92
Escrow Payment:	\$465.84
<b>New Total Payment:</b>	<b>\$1,567.76</b>
<b>Monthly Reduction:</b>	<b>\$1,116.42</b>



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# Option 5

**Best option for the credit union and the member:**

- **Reduces monthly payments**
- **Builds equity over 5 years**
- **At the end of 5 years, member is in a better position to refinance**
- **Or, if their position has not improved, they have built equity which helps reduce potential loss**



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# Option 5 – Example / Benefits

- **\$360,000 at 6% = monthly payment of \$2,158**
- **\$360,000 at 2% = monthly payment of \$1,330**
- **Monthly payment is reduced by \$828 (~38% reduction of payment)**
- **After 2 years principal balance = \$342,125**
- **After 5 years principal balance = \$313,936**
- **Member has \$46,064 in equity that they would NOT have otherwise built with an interest-only loan**



# Recording a Loan Modification

- Recording a modification agreement is required when you:
  - Extend the maturity date beyond the original maturity date
  - Increase the loan amount above the original loan amount
- The Note is NOT recorded



# Recordation NOT Required - Example

The Deed of Trust pledges the house as collateral and sets forth the agreement between lender and borrower to pay off a specified loan amount over a specified term. The Note sets forth the repayment terms (fixed rate vs. ARM, adjustment periods, interest rate).

For example:

A \$300,000 mortgage at 5% is initially set to pay off after 360 regular monthly payments of \$1,610.46. Total repayment (P&I) would be \$579,765.



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# Recordation NOT Required – Example

How and when the loan is paid can be changed:

- **Interest rate can be changed**
  - Fixed rate can be converted to ARM
  - Amortizing loan can be converted to interest-only
- **Can convert back to original terms after hardship period**
- **Making such changes may leave a balance due at the end of term. However, loan will likely be refinanced or the home will be sold before end of the 30 year term.**



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# Key Points to Remember About a Loan Modification

- Not intended to be a permanent solution (i.e. giving member a 1% interest rate for next 40 years)
- Intended to assist member through a legitimate hardship (temporary loss of employment, illness, etc.)
- Escrows must continue to be paid
- If the loan has Private Mortgage Insurance (PMI), the modification needs to be approved by the PMI company



# Key Points – Loans With PMI

- Insures loans with LTV's greater than 80% at origination
- Was avoided in some cases with more creative 80/10/10 and 80/15/5, and in some cases 80/20 programs
- If a loan has PMI we MUST exercise proper care in our collection process or we jeopardize our claim with the PMI company



# Key Points – Loans with PMI, *cont'd*

- Monthly premium higher for ARMs with fixed rate period less than 5 years vs. fixed rate
- Modifications / DILs/ short-sales etc. must be approved by the PMI company
- Percentage of coverage is determined by FNMA's DesktopUnderwriter™ system
  - Example 25% coverage for 90% LTVs
  - Example 35% coverage for 100% LTVs



# Example of PMI Claim

Principal Balance		\$331,000
Attorney's Fees		\$ 6,000
Taxes		\$ 3,000
Preservation Cost		\$ 5,000
Total		\$345,000
	x	<u>35%</u>
Claim Paid		\$120,750



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# Key Points to Remember About a Loan Modification, *cont'd*

- **Cannot drastically modify the first trust and disregard another lender's second trust**
- **Not all modification requests constitute a legitimate hardship**
- **This is not the HAMP Program – credit union modifications are often times more creative and more flexible than most government-sponsored modifications**
- **The request needs to be reasonable and do-able**



## Example of an Unreasonable Modification

- Borrower 'A' earns \$10,000/month
- Borrower 'B' earns \$3,500/month
- Together they have a \$900,000 mortgage with monthly payments of \$6,110
- Borrower 'A' passes away and shortly thereafter Borrower 'B' requests a modification
- Even with reducing rate to 0% and repayment over the next 30 years, payment is still \$3,500 ( $\$900,000 / 360 = \$2,500 + \$1,000$  escrows)



# Balancing Act

- **As credit unions, we want to make every attempt to help members the best way we can and we always want to balance the best interest of the member with the best interest of the credit union**
- **There are times when a member is completely unable (or unwilling) to continue living in their home and making payments**





# Balancing Act, *cont'd*

- There are times when acquiring the property (DIL/short-sale/foreclosure) is the only option that exists
- In order to prevent deterioration of the property, mounting expenses, and managing overall loss, swift action is required





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# Option 'B'

Deed in Lieu of Foreclosure /  
Short-Sale / Foreclosure

# Deed in Lieu of Foreclosure

**Definition:** A process in which the member gives their property to the lender. The property is “deeded” to the lender “in lieu” of “foreclosure”. The lender then sells the property in an effort to recover all or part of the remaining loan balance.

## Advantages over a foreclosure:

- Quicker
- Cheaper
- Friendlier
- Accomplishes the same thing



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# Deed in Lieu of Foreclosure, *cont'd*

- **Certain conditions must be met if loan has PMI**
  - Member must have filed bankruptcy or be deceased
  - Scheduled foreclosure sale date must be more than 60 days from the date of approval
  - Title to the property must be free and clear of all subordinate liens
  - Property must be listed for sale at fair market value for at least 90 days
- **Can ONLY be done if there are no other liens on the property**
- **If other liens exist YOU inherit those liens!**



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# Short-Sale

**Definition:** A process whereby the member (with the lender's approval) sells the property for less than the current principal balance. An appraisal or BPO (Broker Price Opinion) is needed to confirm market value.

## Advantages over a foreclosure:

- Friendlier – member involved in process
- Cheaper
- Quicker
- Better idea/control of expected loss



# Foreclosure

- **If the member files for bankruptcy, all sales procedures halt immediately and we wait for the judge's instructions**
- **The process can take many months**
- **Handled by an attorney recommended by CUMA or chosen by the credit union**



# After The Fact – Real Estate Owned

- **Property now an asset of the credit union**
- **CUMA sends information letter detailing some of the credit union's responsibilities:**
  - **Securing the property**
  - **Making tax and insurance payments**
  - **Paying HOA fees**
  - **Proper maintenance and general upkeep**
  - **Sale of the property**



**CREDIT UNION MORTGAGE  
ASSOCIATION, INC.**



**The Key to Owning Your Home**

(date)

Dear Credit Union:

This notice is to inform you that the property at (address) was foreclosed upon on (Date) and must be placed on the Credit Union's books as an REO Property. Credit Union Mortgage Association is no longer obligated to service foreclosed properties.

The following is a brief list of steps the Credit Union should take to secure their interest in the property and list the property for sale:

- Notify the taxing authority and homeowner's association (if applicable) of your ownership interest in the property
- Continue to pay all taxes, special assessments, utility bills, homeowner's association or condominium association dues until the property is sold.

**Taxes are paid to (County)**  
**Next due dates are: (Dates)**  
**Tax ID:**

- Maintain property insurance on the premises. The current insurance policy is held by:

**Name**  
**Phone#**  
**Policy #**  
**Premium \$**  
**Next due date**

- Ensure the property is secured to avoid potential vandalism, trespassing and/or injury to individuals.
- Maintain the property by performing on-site property inspections to monitor the condition and occupancy of the property. Property inspections will allow you to monitor any vandalism, claimable property damage or winterize the property as necessary.
- Contact a realtor to list the property for sale. CU Realty can assist with this process. The following agents can be contacted for assistance:

Virginia-----	John Butt	703-406-8928
Maryland-----	Lucas Escalera	703-609-9719
DC & other states-----	CU Realty main #	800-203-9014

If you have any questions in regard to this notice, please feel free to contact the Servicing Department at 1-800-231-8855.

9693-A Main Street, Fairfax, VA 22031 · (703) 425-1204 · (800) 231-8855 · Fax (703) 425-7089



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# Questions

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[www.CUMAINfo.com/conferences](http://www.CUMAINfo.com/conferences)