

Your Borrower Faces Foreclosure. Now What?

Loan modifications and lifestyle changes are among brokers' options

By **Jim Richman**, president, Richman and Associates Inc.

At the time, it looked like a great loan — or at least a fundable B/C loan. But life happens, and now your borrower has joined the millions of U.S. homeowners who are one or more payments behind. Soon, they join an estimated 850,000 homeowners in foreclosure.

The chances are good that you have written or will write a few loans that have gone bad or will. If you work with many B or C loans, count on it. Once you know and accept the fact that some of your borrowers are going to lose their jobs, get sick or encounter another life-changing problem, you might want to design a method of helping these folks.

A good first step is implementing a “just in case of a problem” plan. When you make a loan, inform the borrowers that you will be there for them if they run into financial problems. Remind them that “there are home-retention programs that may help you keep your home during troubled times.” A follow-up letter 30 days after closing is not only a smart sales move but also a good time to remind the borrower that you care and can assist them.

Should problems occur, invite the borrowers to your office. If their income is short, you can help them consider options such as:

- Renting out a room in their house.
- Getting a second job.
- Selling a car or similar assets.
- Taking a loan on a 401(k) plan.

Next, check their loan to value for possibly funding a cash-out second loan to pay off debt. Or they could sell their home.

In that case, you could refer them to a real estate agent — who can be a potential referral source for you, too.

If they are beyond your help, refer them to a company that specializes in working with borrowers in foreclosure. This company also should have a history of working with lenders to negotiate a complete restructuring of loan terms. Most good foreclosure-solutions companies are owned and run by former bankers. It

brokers can prove they have, the borrowers can find help. As odd as it might seem, bad credit and high LTVs — even 110 percent — are not considered a problem.

Homeowners who try working directly with their lenders will fail most of the time, as borrowers typically say the wrong things. Attorneys don't have a clue about lending, and borrowers hate bankruptcy and most attorneys. A kind broker warns borrowers that many odd

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takes a banker to know bankers' rules and speak in what sometimes seems to be their “secret, foreign” language.

Almost all lenders will complete a loan modification. In it, most of the late payments and some foreclosure legal fees are put on the backside of the current loan. This gives homeowners a fresh restart. Payments can stay the same or increase a bit as the loan balance increases. The most-important facet of a loan modification is that borrowers have solved their problem — and if

folks will attempt to motivate them by fear or push repurchasing options. There are two chances for repurchasing: Slim and none.

Now and then, you will find potential new clients in foreclosure. It is important to know how to help these clients with a home-retention program, which can cancel their foreclosure. This can improve your chances of funding a B or C loan — and as their credit improves, perhaps even an A loan. **!**



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