

iGlass Consulting

US - Financial Services, 2010 Segment Trends

Deed in Lieu

Mortgage Banking / Servicing : Deed in Lieu now sponsored by HAMP

Briefing paper on Deed in Lieu of Foreclosure Option

Author: Mercedes Esposito-Bustos

What is a Deed in Lieu?

A Deed in Lieu of foreclosure (DIL) is a disposition option in which a mortgagor voluntarily deeds the collateral property in exchange for a release from all obligations under the mortgage Note. A DIL of foreclosure may not be accepted from mortgagors who can financially make their mortgage payments. A DIL of foreclosure must be completed **within 90 days of approval** by the investor/ servicer.

Borrowers like the DIL option because they can get free from their mortgage quickly. In addition, a DIL transaction may be less damaging to the borrower's credit. Of course, this agreement also means that the house needs to be vacated immediately, unlike in a foreclosure proceeding, where the homeowner typically has several months of warning to prepare for a move.

Lenders are more likely to accept a DIL of foreclosure because this transaction is typically cheaper and faster than going through the current foreclosure process. For lenders, a DIL helps to settle a situation fast, and protects them in case the buyer files for [bankruptcy](#). It also tends to produce a property which is in better condition, since people who go through foreclosure proceedings tend to become less interested in caring for their property, and in some cases people even actively vandalize their property out of anger at their situation, thereby making the property harder to sell.

Good to note that a lender may agree to take possession of a property, but it may still hold the buyer responsible for the UPB (Unpaid Principal Balance) of the loan, which means that if the lender cannot sell the property for the amount of the loan balance, the lender could, get a deficiency judgment for the difference. If the debt is not settled with the Deed alone, the DIL of foreclosure will also show up on the homeowner's credit report, as the loan will be listed as being in default until it sells. The amount of debt forgiven may also be subject to [income tax](#).

How it works...

To initiate a DIL the borrower(s) needs to:

- Provide a hardship letter giving a valid reason for DIL request to servicer.
- Present all necessary income/ debt documentation for review.
- Provide a signed 4506 form to request a copy of taxed returns.
- Allow the servicer to inspect the inside of the property.
- Ensure specific wording is used in Deed-in-Lieu to document the understanding between the lender/ investor and the borrower(s).
- Borrower(s) may have to forgo reimbursement of already held in escrow for future payment of taxes and insurance.

iGlass Consulting

On April 5, 2010 the US Treasury will roll out the HAFA (Home Affordable Foreclosure Alternatives) Short Sale and DIL (Deed in Lieu) requirements in an effort to discourage foreclosures. Servicers are allowed to implement HAFA program prior to the roll out date, provided they signed up for HAMP / HAFA before December 31, 2009.

The HAFA program complements HAMP by providing alternatives to foreclosure for borrowers who are HAMP eligible, but unable to keep their home. Servicers will have to consider HAMP-eligible borrowers for HAFA **within 30 days** after the borrower does at least one of the following:

1. Does not qualify for a HAMP trial period plan
2. Does not successfully complete a HAMP trial period plan
3. Is delinquent on a HAMP modification (misses at least 2 consecutive payments)
4. Requests a DIL or a Short Sale

The borrower(s) must meet the basic eligibility criteria for HAMP:

1. Principal residence
2. First lien originated before 2009
3. Mortgage delinquent or default is reasonably foreseeable
4. Unpaid principal balance no more than \$729,750 for single family residence
5. Borrower's total monthly payment exceeds 31% of gross income

HAFA DIL uses a standard process and uniform documents with timeframes and deadlines. It provides financial incentives: \$1,500 for borrower relocation assistance; \$1,000 for servicers to cover administrative and processing costs; and up to a \$1,000 match for investors for allowing a total of up to \$3,000 to go to subordinate lien.

Investor/ servicer must release its first mortgage lien **within 10 business days** (or earlier if required by state or local law) and if the subordinate lien holder receives an incentive under HAFA, that debt must be released as well after receipt of the Deed in the case of a DIL. The investor must additionally waive rights to seek a cash contribution, a deficiency judgment and may not require a promissory note for any unpaid loan balance.

A growing challenge for mortgage servicers...

The mortgage servicer is charged with minimizing the losses of the Lender / Investor while at the same time educating distressed homeowners and real estate agents into a debt relief solution that meets Treasury/ Lender/ Investor/ Mortgage Insurer guidelines in a short time frame and with a multitude of operating systems struggling to keep up with the rule changes published by regulators. With the announcement of HAFA the loss mitigation pipelines are swelling in servicers' shops across the country.

How to make it better?

Mortgage default executives and portfolio managers in servicing shops with capacity, processing and or technology issues would benefit from unbiased external consulting services that will validate what they are doing well, map current conditions of process workflows, describe performance gaps, and identify what could be done better, faster and cheaper. iGlass accomplishes this by developing a customized Roadmap.

iGlass Consulting

A Roadmap is a master plan with detailed recommendations that can aid in reaching desired targets:

- Customer self service options
- Paperless documentation solutions
- Staff utilization and flexible schedules
- Knowledge and compliance solutions
- Delegation criteria for non GSE loans
- Agile and comprehensive loss mitigation decisioning
- Simplified process workflows
- Interaction with 3rd party vendors
- Systems integration options
- Shorter transaction cycle times
- Quality controls for customer satisfaction
- Effective customer contact options
- Additional capacity options
- Sustainable production goals
- Flexible report creation
- Measurable success

iGlass Consulting can be the catalyst that servicers need to achieve greater loss mitigation success. Our company provides over 80 years of combined achievements in management consulting with proven methodologies and tools that help our clients get on track for:

- Improved portfolio performance
- HAMP/ HAFA incentives
- Enhanced production
- Increased revenue
- Growth

Resulting in...

Enhanced effectiveness of tactics to defend the institution's financial assets.

Contributing sources...

<http://www.treasury.gov/> - <http://www.makinghomeaffordable.gov/>
<https://www.efanniemae.com/home/index.jsp> - <http://www.freddiemac.com/sell/guide/>
https://www.hmpadmin.com/portal/programs/foreclosure_alternatives.html
plus... HousingWire.com – DSNews.com – Mortgage Servicing News – MBA