



UNDERSTANDING WORKOUT OPTIONS

If you are behind on your mortgage payments, a “workout” may be available through your lender. Workouts are special arrangements to bring your loan current and/or prevent foreclosure. The workout option available to you will vary based on the type of mortgage you have, your lender, and your financial situation.

Options for remaining in your home:

Forbearance: Forbearance is an agreement to temporarily change or suspend your payments. The term “special forbearance” may also be used in situations where the payment is reduced. Forbearance doesn’t mean your payments are forgiven or erased. To prevent foreclosure, forbearance must be combined with another workout option when the forbearance period ends.

Reinstatement: A reinstatement is when you pay the full amount you owe (total of past due monthly payments plus all fees) in a lump sum by a specific date.

If your mortgage is backed by Fannie Mae, Freddie Mac, HUD/FHA, VA, or USDA and you received a COVID-19 hardship forbearance, you are not required to pay back your missed payments in a lump sum.

Repayment plan: Under a repayment plan, you make your regular monthly payment to your lender plus some extra each month to catch up on past due payments.

Payment deferral: If you can afford to resume your regular monthly payment, your lender may offer you a payment deferral. This means that your missed payments will be added to the end of your loan, and they will be due when you pay off your mortgage, refinance, or sell your home.

Partial claim or advance claim: If your mortgage is insured, you may qualify for a low interest or interest-free loan to bring your loan current through the insurer (FHA or private mortgage insurance). This loan may have small monthly payments, or it may be repaid when you pay off your first mortgage or sell your home.

Loan modification: A loan modification is a change in any of the terms of the mortgage, resulting in a new monthly payment. In a typical loan modification, you have to pay some of the past-due amount you owe, and the rest is added back into your loan. A loan modification may also involve one or more of the following: changing the interest rate from an adjustable rate to a fixed rate, lowering the interest rate, or extending the number of years to repay the loan. Your lender may require a trial period where you make several monthly payments at the new amount before receiving a permanent modification.



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Options for moving out of your home:

Pre-foreclosure sale or short sale: If you owe more on the home than its value, your lender may agree to accept less than what is owed on the mortgage, allowing a “short” sale. Typically you would need a 3-6 month period for your real estate agent to sell the house to a qualified buyer at a price agreed upon by the lender.

Deed-in-lieu: A deed-in-lieu of foreclosure is an option where your lender forgives the debt you owe if you sign over (give back) the property. Typically you would first have to try to sell the home before the lender would consider this. If you have a second mortgage or judgment on the property, a deed-in-lieu may not be an option.

Tax Consequences

Some workout options that include debt forgiveness may impact your income taxes. Consult a tax professional for more information.

For homeowners impacted by COVID-19:

Many lenders are offering COVID-19 specific workout options to borrowers impacted by the COVID-19 pandemic. These options are similar to the ones listed here, but they may be “streamlined” or require less documentation than usual, which means you can get back on track more quickly without having to submit a lengthy application to your lender.

The workout options available to you still depend on the type of mortgage you have, your lender, and your financial situation. For more information about mortgage relief during the COVID-19 pandemic, visit www.consumerfinance.gov/coronavirus/mortgage-and-housing-assistance.

If you are struggling with your mortgage payments or are nearing the end of your forbearance period, the Minnesota Homeownership Center can connect you with a Homeownership Advisor in your area who offers free, confidential, and nonbiased information.

Contact us today: 651-659-9336 or www.hocmn.org/help.