Working with Borrowers

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When you buy a defaulted mortgage and you make the decision to work the loan yourself, you will quickly find out that one of the most challenging jobs is working with the borrower. One thing you need to keep in mind is that the borrower is person just like you. In fact 50 percent of the battle is going to be making contact with the borrower and getting them to communicate with you. You have no idea how many times the mortgage has been passed around from servicing company to servicing company or how the borrower was treated by these different companies.

When working with the borrower of distressed or defaulted mortgages, it is important to try to put yourself in their shoes when you begin speaking with them. Always treat the borrower with dignity and respect, even if they do not treat you the same way over the phone, via email or other correspondence. Remember, that they are the ones facing the problem and are probably scared, because they are concerned about losing their "home." You will get a lot farther with the borrower when you treat them with dignity and respect at all times. It is like that old saying "You will catch more flies with honey than with vinegar." Yes, there are times when you need to be firm, but you can be firm and at the same time, treat the borrower with respect as a person.

Making contact

Once you make contact with the borrower, explain who you are and confirm they are willing to speak with you about the loan, ask the following three questions and then LISTEN.

1 – What happened that you caused you to stop paying on the debt?

2 – Where are you now?

3 – What do you want to do about the loan?

It is very important that you LISTEN to the borrower and confirm their situation. Too many times they probably had someone pretend to listen to their story and then cut them off demanding payment immediately without regard to their current or past situation.

You goal is to get paid. You reach this goal by building rapport with the borrower, acknowledging their situation, being empathetic and listening carefully to what they are saying. During this phase, you should be listening more than talking.

When the borrower has finished with their story and situation, and you have acknowledged their situation with them, ask if they have time go over their financials at this time. You will need to know about their current income and expenses and how much they can afford to pay on the debt without being overburdened. Remember, your goal is to get paid and with that in mind, you need to work out a plan that will make them successful in paying off your loan.

If you are working on a first mortgage, ask the borrower if they can afford to make the monthly payment. Ask if they can afford to pay on the arrears and how much they think they can pay on the arrears. Maybe they can afford to pay additional to catch up on the past due amounts over a period of time.

If you are working on junior lien, ask the borrower how much they can afford to pay on the arrears and how much per month they think they can afford to pay.

Let them tell you how much they think they can pay.   You should have a figure in your mind after going over their financials on what they can 'afford' to pay.

Remember, your goal is to get paid. Again, with that in mind, maybe you can restructure the loan (modification or payment plan) that will allow the borrower to start making payments and get caught up on the arrears. If they feel like they are part of the negotiations and getting a deal, they are more willing to work with you and pay off the loan. You need to be different than the "Big Bad Bank."

Foreclosure Alternatives

There are several Foreclosure Alternatives that you can work out with the borrower.

1. Forbearance plan
2. Loan Modification
3. Refinance
4. Short Sale
5. Deed In Lieu of Foreclosure

Let's look at each of these options.

There are many creative ways to put the borrower on a workable payment plan. You should always take into consideration their current debt load and income. You may even offer some sort of debt counseling for the borrower. The simplest debt counseling is to suggest that they pick up a book from their local library on managing debt by one of the known Money Gurus, such as Suzy Orman or Dave Ramsey. I personally like Dave Ramsey because he focuses on being debt free and paying for everything with cash.

So let's look at each of the foreclosure alternatives.

Forbearance

A forbearance plan can be setup to either allow the borrower to make reduced payments over a period of time until they can get back on their feet, financially. This is similar to a "Temporary" loan modification. Or the forbearance can be setup to allow the borrower to catch up their missed payments over a period of time. You are forbearing taking any further legal action to secure your debt when you enter into this type of agreement. Merriam-Webster gives us this definition: "a refraining from the enforcement of something (as debt, right or obligation) that is due."

You can put them on a forbearance plan where they make a less than full amount payment for a period of 6-24 months until they get rid of some other debts or have an increase in their income. This works best for borrowers who have too much debt and are struggling to make their second mortgage payments.

You might even want to pay off some of that debt and add it to your position so they can begin paying you faster. An example of this would be someone who took out some payday loans and are now stuck in a rut with payday loans. They can't seem to get ahead because all their additional cash is going to pay down these payday loans. You could pay them off and add that to your note balance so the borrower can begin to pay you.

But typically you would put them on a payment plan where the borrower makes more than the monthly payment over a period of time to get caught up on the missed payments. This works well for borrowers who can afford to make up the past due payments over time and get caught up (usually with your first mortgage but this works for seconds as well).

Loan Modification

A loan modification modifies one or more of the terms of the existing promissory note with either some forgiveness of past due amounts or the capitalization of the past due amounts into a new principal balance. The goal is to put the borrower onto a payment arrangement that they can be successful. Remember your goal is to get paid. You can modify the interest rate, you can modify the unpaid principal balance (through principal reduction or capitalizing the arrears), you can modify the existing term or you can do multiple terms in combination to create a plan in which the borrower can be successful.

Refinance

Some borrowers may qualify for a refinance of their existing mortgage after getting on a payment plan and showing that they can make consistent payments. You may need to work with the borrower and a mortgage broker on getting the borrower refinanced through a program that is available. It could take up to 2 years for the borrower to build a good pay history, so ask a lot of questions and be patient.

Short Sale

A short sale is where the property is sold for less than the amount owed on all the liens attached to the property. You may get fully paid off or you may need to take a haircut depending upon the lien position you hold and the current value of the property

Deed In Lieu

A deed in lieu is where the lender takes title to the property in exchange for not foreclosing on the borrower. The borrower voluntarily signs a deed transferring the title of the property to the lender and moves out of the property.   You might offer the borrower a cash incentive to complete the transaction and leave the property in good condition instead of foreclosing and risking the borrower trashing the property.

Foreclosure

This should be your last resort or last option whenever you are working with a borrower. You may choose this option for any of the following reasons. Unable to locate the borrower, the borrower is deceased and there are no heirs, the borrower is uncooperative, or there was a divorce situation and the person left with the property refused to pay thinking their ex-spouse is going to pay. You might even choose to foreclose even if the homeowner is willing to sign over the deed, but there are junior liens that you need to get removed from the property because they are unwilling to negotiate for anything less than full payoff. I refer to that as a “Friendly Foreclosure”.

Remember, you are dealing with a person, who like you, needs a place to live, has to work for their income, has debts to pay and in most cases, wants to be able to pay and afford their debts. I can’t stress enough on treating the borrower with humanity, dignity and respect, even if they don’t initially treat you that way.   You may have heard the term “Kill them with kindness.” That is exactly what you need to do, is keep smiling and talking softly, yet be in control when dealing with borrowers.   This doesn’t mean you let them walk all over you. It means that you treat them with respect.