Avoid Foreclosure:
Pre-Foreclosure Sale & Deed In Lieu to the Rescue!

Section 502 Guarantee Loan Program

COST OF FORECLOSURE
Survey of FY 2017 paid claims
• Average loss claim: $50,990
• Average liquidation costs: $6,168
LOSS MITIGATION OPTION USE

- Loan Modification 49%
- Repayment Agreements 45%
- Pre-Foreclosure Sales (Less than 1%)
- Deed In Lieu (Less than 1%)

COULD FORECLOSURE BE AVOIDED?
EVIDENCE OF HOPE

- Less than 3,000 claims
- Not due to foreclosure

LEVERAGE YOUR OPTIONS!

- Pre-Foreclosure Sale
- Deed in Lieu
SFH Guaranteed

Pre-Foreclosure Sales:
LESS THAN 1%?
Missed Opportunities?
• Failed repayment plan
• Repair language confusing

SFH Guaranteed

Deed In Lieu:
LESS THAN 1%?
• Short Sale falls apart
• Borrower in bankruptcy
• Failed repayment plan
GOALS

• Empower Partners
• Encourage flexibility
• Document appropriately
Regulation and Handbook

7 CFR 3555:
3555.305 Voluntary Liquidation

HB-1-3555: Chapter 18
Attachment 18-A: Loss Mitigation Guide

USDA Regulations and Guidelines
https://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555
APPLIED ASSUMPTIONS

• Waterfalls are exhausted

<table>
<thead>
<tr>
<th>SFH Guaranteed</th>
<th>Special Relief Options:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Informal Repayment Agreement</td>
<td></td>
</tr>
<tr>
<td>2. Special Forbearance</td>
<td></td>
</tr>
<tr>
<td>3. Loan Modification</td>
<td></td>
</tr>
<tr>
<td>4. Special Loan Servicing</td>
<td></td>
</tr>
<tr>
<td>5. Pre-Foreclosure Sale</td>
<td></td>
</tr>
<tr>
<td>6. Deed-In-Lieu</td>
<td></td>
</tr>
<tr>
<td>1. Extended term and lower interest rate</td>
<td></td>
</tr>
<tr>
<td>2. Extended term, lower interest rate, and Mortgage Recovery Advance (MRA)</td>
<td></td>
</tr>
<tr>
<td>3. MRA alone</td>
<td></td>
</tr>
</tbody>
</table>

LEARNING CHECKS:

START YOUR ENGINES!
Question 1: True or False

- Borrower is discharged from Chapter 7 bankruptcy
- Mortgage debt is not reaffirmed

Lender must pursue PFS before a foreclosure may be initiated.

Question 1: FALSE

Offer a Deed in Lieu (DIL)!

- Borrower is no longer liable for the mortgage debt
- No financial package is required: recent BK
- Save foreclosure/acquisition costs
- Title must be clear
SFH Guaranteed

Question 2: True or False

• Borrower is 60 days delinquent
• Property appraised for $100,000
• Required repairs: $10k floor coverings, $10k replace A/C and heating system, and $10k deck replacement = $30k total
• Repairs due to borrower neglect, not eligible for a homeowners insurance claim

Repairs exceed 10% of appraised value. A PFS or DIL is not an eligible option.

SFH Guaranteed

Question 2: False

This property is eligible for a PFS or DIL.

• Property is in average to poor condition
• Repairs are not an insurable loss or eligible for reimbursement
• Lender may either 1. Offer PFS without repairs or 2. Offer DIL, complete repairs, market property

Either option = avoiding foreclosure and saving money
Question 3: True or False

- Borrower is 30 days delinquent
- Residence was vacated and rented due to job relocation and upside down equity
- Renters left after two years, borrower is unable to cover the current mortgage

Borrower is eligible for a PFS.

Question 3: True

The borrower is eligible for a PFS.

- Reason to vacate the property and hardship is involuntary
- Capacity to repay is not supported
Question 4: True or False

• Borrower was approved for a PFS
• Reason for default was involuntary
• No capacity to repay the mortgage
• Property has been on the market for 90 days, no offers

Borrower is eligible for a DIL.

---

Question 4: True

The borrower is eligible for a DIL.

• Borrower’s capacity to repay is unchanged
• No new financial package is required if there is no change in hardship circumstances
Question 5: True or False

- All borrowers to the mortgage are deceased
- The home is now held by the heirs of the estate
- Mortgage balance is $105,000
- Appraised value is $98,500

Lender must offer a PFS before a DIL could be considered.

Question 5: False

The lender may offer the heirs a DIL.

- There is no equity in the home
- Title must be clear
- The DIL reduces the burden on the heirs
- Reduces financial costs to liquidate the property
SFH Guaranteed

Question 6: True or False

• Loan is DQ 30 + days
• Loss of job 2 months ago
• Borrower was renovating the kitchen, fire occurred: Total damage: $45,000
• Appraised value of dwelling: $215,000
• Insurable loss

Lender must proceed to foreclosure due to damage.

SFH Guaranteed

Question 6: False

The lender may offer the borrower a PFS.
• The damage is an insurable loss
• Lender must work with insurance company to repair
• Market property for 90 days
• If no sale after 90 days, proceed to DIL and continue to market property
SFH Guaranteed

Goal: Avoid Foreclosure

• Reduce costs to lender and government
• Avoid lengthy litigation
• Encourage homeowner to leave peacefully, collateral intact
• Reduce personal/emotional loss
• Assist homeowner to maintain better credit: Avoid bankruptcy

SFH Guaranteed

1. Reason
2. Prudence
3. Good judgment
1. Document

2. Document

3. Document!

Speaking of Document: USDA LINC

https://usdalinc.sc.egov.usda.gov/RHShome.do

1. Enter servicing plans upon your approval.
2. Do not wait until the borrower responds.
3. USDA requires documentation of your decision.
4. Failure to report = unauthorized servicing.
Helpful Tips

• Be Empowered!
• Put PFS and DIL options on the table
• Document decisions
• Low cost options are win/win
SFH Guaranteed

Resources: USDA LINC

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA’s TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at How to File a Program Discrimination Complaint and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: program.intake@usda.gov.

USDA is an equal opportunity provider, employer, and lender.