

## Home-Mortgage Modification and Refinancing Differences

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As federal and state protections expire for homeowners across the country, millions of Americans may still be unable to repay their mortgage debt in the wake of the COVID-19 pandemic. As a result, many distressed homeowners are likely to consider bankruptcy as an alternative to resolve their mortgage-debt obligations. Home-mortgage modifications within bankruptcy can provide optimal solutions for distressed homeowners, yet they often are not well-understood, nor do sufficient programs currently exist to help facilitate them.

In the first column of this series designed to provide insight into the ins-and-outs of home-mortgage modification, we will delve into the differences between a home-mortgage modification and refinancing. By understanding these differences, professionals and their clients can be better prepared to navigate the issues of home-mortgage debt in the context of bankruptcy.

When homeowners refinance their mortgages, they are paying off the existing loan and entering into a new loan. To complete a refinance, the loan originator must complete an underwriting review of the borrower's finances. During this process, mortgage representatives are in constant contact with the borrower. Borrowers receive reminders of the financial information needed to complete the required underwriting, and borrowers are routinely provided with secure logins to websites that precisely guide them through the process and help track their progress.

Similarly, in a mortgage modification, there is also a complete underwriting of the borrower's financials, but that is where the similarities end. In contrast to a refinance, when a borrower seeks a home-mortgage modification, no new loan is created. Rather, the borrower is requesting a modification to the terms of the existing loan. Typically, when a home-mortgage modification is approved, the loan servicer will modify things such as the interest rate and the remaining term of the existing loan to create a payment that falls within the modification guidelines by which the servicer is bound.

In addition to the substantive differences between a modification and a refinance, the procedural differences are stark. Borrowers seeking a modification often do not know what information they need to provide to the mortgage servicer, and because each household has different income sources hardships that caused the delinquency, the submission requirements vary. Information packages often consist of a maze of instructions that even the most seasoned mortgage professional would find challenging.

Assuming borrowers can track down the correct forms and instructions for applying for a mortgage modification, the next challenge is document submission where information is often sent by mail, fax, and email to generic and non-descript addresses in the hopes that someone will properly receive them, index them, and forward them to the correct processing department.

Court-based home-mortgage modification programs can provide a solution to these challenges by ensuring the process is moving forward seamlessly. They provide access to technology like online portals and guidelines that ensure that all involved parties are on the same page and accountable from start to finish. Moreover, home-mortgage modification programs can offer a better solution to repay mortgage debt with a sustainable payment that the debtor can reasonably fulfill. In bringing transparency and structure to a confusing process, they also can alleviate added burdens on court resources when these matters are being resolved within the bankruptcy courts.

For professionals who are guiding clients to resolve their home-mortgage debt obligations in bankruptcy, home-mortgage modifications can serve as an essential tool benefiting the millions of Americans who may be unable to repay their mortgages, while also easing the burdens on courts and professionals with a streamlined and efficient process for all involved.