

Reasons a Loan Modification Might Be Denied

Know your lender's guidelines

One of the first things you need to do is know your lender's guidelines. Regardless of whether you're applying for a Making Home Affordable loan mod or a private modification through one of your lender's own programs, you need to know what the requirements are and what they expect. Fail to meet these and you're dead before you even get started.

Also, don't just rely on the government's own Making Home Affordable guidelines - it's a voluntary program for lenders, so yours may have their own particular wrinkles you need to be aware of.

Have your documents in order

One of the big things that trips people up, especially those in the trial modification phase who are trying to get approved for permanent status is not submitting all the necessary documents. This goes back to knowing your lender's guidelines - part of it is knowing what documents they'll require for things like income, taxes, divorce, decrees, death certificates for estates, other debts, etc. You also need to make sure you've filled out all the forms properly - people have been turned down for something as small as failing to sign in the proper place.

You'll also want to submit all your documents together, in one envelope. Doing otherwise is an invitation for things to get lost. Also, be sure and make copies of everything, in case questions arise over whether you submitted something or not.

Be accurate on everything

You also have to be sure that all your information is accurate - especially anything related to income and debts. One of the main reasons people get turned down for a permanent loan modification after being accepted for a trial period is that the lender can't verify their income as stated on the application.

This can take several forms. It may be that a borrower exaggerated their income or low-balled their debts in hope of getting approved. Or maybe the income they reported on the application doesn't match up with what was reported on their tax forms. Or maybe their income changed during the trial period. Or the lender can't verify the income of a second person listed on the mortgage. The bottom line is, the lender is going to check out everything - if you're not upfront with everything, it will probably be found out.

Write a convincing hardship letter

Another thing that can cause your application to fail is the lack of a good hardship letter. The hardship letter is not simply a routine item - it's where you explain to the lender how you got into the financial situation you're in, why you think a loan modification will help and why the lender should regard you as a good risk. Basically, it's your chance to convince the lender why they should grant you a loan modification. If you doubt your own writing ability, get a family member or friend to help you with it, or ask our experienced staff.

Keep a lid on new debt

Finally, you don't want to be piling up new debt while in the process of applying for a loan modification or going through a trial loan modification. It shows your lender that you don't have a good handle on your expenses, and it's sure to show up in the credit reports your lender will seek during your evaluation. In addition, it creates a discrepancy between the debt you reported and the debt reported later on your credit statements.

Following these steps won't guarantee that you'll get a loan modification. But at least they can help ensure that you're not rejected for one that you ought to qualify for.