

# Loss Mitigation for Real Estate Loans



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## Introduction

Welcome to the *Loss Mitigation for Real Estate Loans Training on Demand* course.

When a member is unable or unwilling to pay their real estate loan, the credit union needs to be prepared. Understanding the solutions available and employing effective communication strategies are the keys to successfully navigating delinquency.

## Objectives

In this course you will learn strategies to help members retain their home ownership and help your credit union control delinquencies.

In this course, you should learn how to:

- Develop a plan for handling loan delinquencies and the workout process;
- Recognize communication strategies for working with members in need;
- Identify how to conduct a financial analysis on a troubled loan;
- Explore workout solutions to mitigate loss; and
- Review the foreclosure timeline.



## What Is Loss Mitigation?

Loss mitigation is a process that helps members avoid foreclosure and helps lenders minimize their losses on delinquent loans. The process does not always begin when a loan becomes delinquent. Rather, loss mitigation requires regularly assessing the performance of a loan and effectively communicating with members in need. Loss mitigation is critical for both members and the credit union.

## The Benefits of Loss Mitigation

Loss mitigation benefits both your members and your credit union. For members, it prevents home foreclosure by relieving a homeowner of a mortgage obligation, or by creating a mortgage resolution that is financially sustainable.

Foreclosures create a tremendous financial burden on a credit union's balance sheet. Loss mitigation allows credit unions to assist members in need while taking a lesser loss at present, to avoid the much greater loss caused by foreclosure.

This Training on Demand course will help you understand the importance of loss mitigation and how it can be beneficial for members and the credit union. This course will also help you identify steps for working more effectively with members who face foreclosure.

## Handling Loan Delinquencies

### The Workout Process

The workout process is an integral part of loss mitigation for real estate loans. Your credit union needs a real estate collections strategy in order to assist members and maintain a strong loan portfolio. Loss mitigation is the act of working with a borrower to resolve a defaulted loan.

The workout process involves:

- Working with the member to resolve a delinquent loan;
- Financial planning to deal with the current financial crisis;
- Good communication strategies; and
- Conducting a financial analysis.

The workout process for real estate loss mitigation helps credit unions address loan delinquencies by working with members to construct a financial plan to deal with the current financial crisis, and the mortgage delinquency.

Well-planned collections strategies will help your credit union deal with members who have real estate loan delinquencies. In order to discover and use the appropriate solution, you must understand the nature of the member's situation.

That's why it's so important to have good communication strategies to help your credit union deal with members who have loan delinquencies. You also need to conduct a financial analysis, and discover why the account is delinquent.



Keep in mind that a workout process takes time, so the earlier you can start with the workout process, the better. The first step is to gather information about the member's financial situation.

Useful documentation includes:

- The completed application form;
- Pay stubs;
- W-2 forms from the previous year;
- A completed budget; and
- A hardship letter explaining the situation.

The hardship letter must explain what happened to make the mortgage loan unaffordable. It should state the steps the member has already taken to try to make things better. It should clearly describe what kind of help is needed from the servicer.