Disaster Information Resources

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Navigating Post-Disaster Mortgage Issues

No one is exempt from life-threatening and home-destroying natural disasters. Disasters come in many forms – floods, hurricanes, tornadoes, forest fires, ice storms, earthquakes and volcanoes, dramatically affecting the lives of borrowers. In the wake of a natural disaster, homeowners, who may have also lost income, often face the daunting challenge of making monthly mortgage payments on badly damaged, perhaps destroyed residences.

Lenders want to keep people in their homes and to help those who have lost them to purchase new homes or to rebuild their homes and communities. In the wake of a large-scale natural disaster, some lenders provide immediate short-term relief such as suspending mortgage payments, waiving late-payment fees and ensuring that late payments will not damage credit ratings. However, many disaster victims will need assistance for extended periods of time.

If You Can't Pay Your Mortgage

No federal law requires a lender to offer a borrower special consideration, regardless of how dire the circumstances. Any lender accommodation is determined on a case-by-case basis. Unfortunately, it is up to the borrower to bring the extenuating circumstances to the lender's attention. Mortgage-holders are encouraged to:

- Contact your lender or loan servicer as soon as possible to discuss your situation. A home mortgage may be "serviced" by the lender who made the loan or by another lender. The mortgage loan servicer is the company you send your payments to.
- Tell the lender or loan servicer that you've been affected by the disaster.
- Ask for "forbearance." A loan servicer can choose to defer payment and not to engage in other negative credit consequences such as late fees, collection calls and negative reporting to a credit reporting agency. You have to ask for forbearance.
- Ask that any fees already assessed be reversed. For example, if late fees for payments missed because of disaster-related disruption were charged, ask that fees be dropped.
- Be sure you understand what the forbearance will include. Ask the lender or loan servicer:
  - How many months' payments will you postpone?
  - Will the lender or loan servicer impose any fees for the payment deferral?
  - When will the deferred payments be due?
  - Will the missed payments be repaid over a long time, rather than all at once?
  - Will the lender stop any negative credit reporting for the deferred payments?
- Get all lender promises to you in writing.
- Seek legal help. Low-income consumers can get free legal assistance. Look for your local legal services program in the phone directory. If you don't qualify for a legal services program and need a lawyer, contact the Louisiana Bar Association Legal Assistance Hotline at (800) 310-7029.
- The Louisiana Bar Association provides other useful information, including material about dealing with FEMA, at: http://www.lsba.org/home1/KatrinaVictimsflyer.pdf
- Be cautious about any documents your existing lender or a new lender asks you to sign. Get advice about what these documents require before you decide whether to sign them.

- Complain to the federal government. After you contact your lender, if you feel you aren't being treated fairly, report the lender to a federal regulatory agency. You can submit a complaint though the Office of Comptroller of the Currency, Consumer Complaints and Assistance at www.occ.treas.gov/customer.htm or 1-800-613-6743.

  If the Comptroller doesn't regulate your lender, they should be able to tell you who does or forward your complaint to the appropriate regulator.

- Inform local community and consumer groups about the lender's conduct as well.

Contact FEMA

Contact FEMA about applying for long-term housing if your home has been destroyed or for financial assistance if your house has been damaged. Disaster assistance is money or direct assistance to individuals and families whose property has been damaged or destroyed and whose losses are not covered by insurance. It is meant to help you with critical expenses that cannot be covered in other ways. This assistance is not intended to restore your damaged property to its condition before the disaster. Individuals affected by Hurricane Katrina can receive up to $5,100 for emergency repairs to make home safe or up to $10,000 for the purchase of another home. Applicants to FEMA may be required to seek assistance from the Small Business Administration first.

Small Business Administration (SBA) Loans

If you are in a declared disaster area and are the victim of a disaster, you may be eligible for assistance from the U.S. Small Business Administration – even if you don't own a business. A homeowner may apply for a loan of up to $200,000 to repair or restore their primary home to its pre-disaster condition. The loan may not be used to upgrade the home or make additions to it. If, however, building codes require structural improvements, the loan may be used to meet these requirements. Loans may be increased by as much as 20 percent to protect the damaged real property from future disasters of the same kind. Additionally, personal property loans of up to $40,000 are available to help repair or replace personal property such as clothing, furniture, automobiles, etc. lost in the disaster. Renters may apply only for personal property loans.

Only uninsured or otherwise uncompensated disaster losses are eligible for SBA assistance. If you have insurance coverage on your personal property/home, the amount you will receive from the insurance company will be deducted from the total damage to your property to determine the amount for which you are eligible. If you have not made a settlement or are having trouble reaching an agreement with your insurance company, you may apply for a loan in the full amount of your damages and assign any insurance proceeds to be received by the SBA.

Interest rates for SBA loans may vary over time with market conditions. Interest rates for home loans during the period between August 1, 2005 and May 29, 2006 were 2.687% for borrowers with no credit elsewhere and 5.375% for borrowers with credit available elsewhere. The term of each loan is determined in accordance with the borrower's ability to repay.

In certain cases, the SBA may refinance all or part of prior mortgages. Refinancing will be considered if the borrower 1) does not have credit available elsewhere; 2) has suffered substantial uncompensated disaster damage (40 percent or more of the value of the property); and 3) intends to repair the damage. An SBA disaster loan officer can provide more detailed information on your specific situation.

If you are unable to obtain a building permit to rebuild or replace your home at its original site, the cost of relocating your home may be included in the loan amount. If, however, you decide to relocate your home without being required to, an SBA loan can be obtained only for the exact amount of the damage.

Mortgage Insurance For Disaster Victims

Residents of presidentially declared disaster areas may qualify for a zero-down payment, government-insured, 203(H) FHA mortgage. Individuals are eligible for this program if their homes are located in an area that was designated by the president as a disaster area and if their homes were destroyed or damaged to such an extent that reconstruction or replacement is necessary. The 203(H) loan program allows borrowers to finance all closing costs. These loans can also be used to rebuild or repair a disaster-damaged home.

Designed to serve low- and moderate-income people, the dollar value of the mortgage may range from $172,632 to $312,895. The loans are for single-family homes only, and it must be the principal residence – not a vacation home.

Applications for mortgage insurance through Section 203 (H) must be submitted within one year of the president's declaration of the disaster. Applications are made through an FHA-approved lending institution, who make their request through a provision known as "Direct Endorsement." For more information, contact the Department of Housing and Urban Development's Denver Homeownership Center at 1-800-225-5342 or a HUD-approved lender.

Disaster Insurance

Disaster insurance covers home loan payments if there is a disaster, like earthquakes and floods, which are not typically covered by your homeowner's insurance policy. Mortgage disaster protection can pay monthly loan payments while your home is being repaired or rebuilt or help pay off a home loan if your home is damaged beyond repair. This extra insurance, if desired, must be purchased in addition to your standard homeowner's policy and can be expensive, depending on where you live.

Mortgaged homes in the United States that are located in designated flood hazard areas are required to buy flood insurance through the U.S. National Flood Insurance Program. Of course, once those mortgages are paid, there is no longer a requirement to buy such insurance. But, homeowners in those areas should carefully consider whether they really want to take the risk that their home and everything in it could be swept away. Contact your insurance agent for more information about mortgage disaster protection.

Check Your Credit Report

It is important to order your credit report and review it for accuracy. Consumers can request a free copy of their credit report from each of the three major credit reporting agencies each year. Online requests can be made at https://www.annualcreditreport.com Call 1-877-322-8228 to request your free credit reports by phone.

You can dispute any negative information on your credit report that was caused by the disaster. Notify each credit reporting agency about all such negative items. The dispute doesn't remove the information, but it does mark it "AU" – affected by disaster. Marking the negative information as caused by the disaster can help you try to get lenders to overlook the information when you seek new credit, which means you may qualify for a better rate.

If you are seeking new credit, tell the new lender that you have been affected by disaster. Mortgage lenders have the choice to ignore your prior home mortgage in deciding if you have too much credit, but you may have to ask for this treatment.

If your credit history is negatively affected by the disaster, ask a new lender to use "manual underwriting" on your loan application. This is a process where the new lender looks closely at your individual circumstances.

Read everything before you sign it. If you do not understand forms offered to you, do not sign them. Beware of door-to-door offers that will be financed on credit.

Proceed Wisely

- Take advantage of social support services. Research and apply for all available options. Look for potential governmental buyouts or repair/rebuild/relocate assistance programs. Such options may not be available for some time after the disaster. In the meantime, take action to stop your losses, assess the situation, recover or recapture what you can and develop a new plan.
- Don't rush to sell your property because you are financially desperate. Financial help is available from various sources, including the federal government and charitable organizations.
- Don't fall for scam artists who say they can help you hold on to your property and protect your credit if you pay them a fee or "temporarily" sign over your property to them.
- Don't borrow money – especially from contractors – to rush into home repairs. Take your time to work with your insurance company and take advantage of assistance programs that are available.
- Don't rush into declaring bankruptcy. Bankruptcy can damage your credit for years to come. Take your time to find out about financial assistance and other options that are available to survivors like you before you take such a drastic step.

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