GENERAL

contribution letter for mortgage modification

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Understanding the Contribution Letter for Mortgage Modification

When a homeowner faces financial hardship, a mortgage modification can be a lifeline. Yet, lenders often require additional documentation to assess the applicant's ability to meet the new terms. One critical document is the **contribution letter for mortgage modification**. This article dives deep into what it is, why it matters, how to craft one, and the best practices to increase your chances of a successful loan modification.

What Is a Contribution Letter?

A contribution letter, in the context of mortgage modification, is a formal statement from the borrower (or a co-borrower) detailing their financial contributions toward the loan's repayment. It outlines how much money the homeowner can realistically contribute each month, the total amount available for a one time payment, and the timeframe over which these contributions will be made.

Unlike a standard income verification, a contribution letter focuses on the borrower's actual cash flow rather than projected earnings. It serves as evidence that the homeowner is committed to keeping the property and is willing to put extra effort into the modification process.

Why Lenders Ask for It

- Risk Assessment: Lenders need to gauge the borrower's ability to repay under new terms.
- Creditworthiness: A detailed contribution plan can strengthen a borrower's case, especially when credit scores are low.
- Regulatory Compliance: Some mortgage servicers must document the borrower's financial commitment to meet federal or state guidelines.
- Avoiding Foreclosure: By demonstrating a clear plan, lenders can reduce the likelihood of default and foreclosure proceedings.

When Do You Need a Contribution Letter?

Not every mortgage modification request requires a contribution letter, but it becomes essential in the following scenarios:

1. High Debt-to-Income Ratio: If the borrower's debt-to-income (DTI) ratio exceeds the lender's threshold, a contribution letter can help offset the concern.
2. Limited Income Sources: When income is irregular or comes from non-traditional sources, a contribution letter clarifies actual cash flow.
3. Co Borrower Situations: If a spouse or partner is also contributing, the letter must reflect joint contributions.
4. Large One Time Payment Requests: When the borrower is asking for a lump sum payment to reduce the principal, the letter must detail the amount and timing.
5. Government Backed Loans: FHA, VA, and USDA loans often require a contribution letter as part of the modification package.

Key Components of a Contribution Letter

While there is no universal template, a strong contribution letter should include the following elements:

1. Header and Contact Information

Include the borrower's full name, address, phone number, and email. Add the lender's name and the loan account number.

2. Statement of Purpose

Briefly explain why the letter is being submitted and what the borrower hopes to achieve with the modification.

3. Detailed Contribution Plan

- Monthly Contribution: Specify the exact amount the borrower can afford to add each month.
- One Time Payment: If applicable, state the lump sum amount and the proposed date of payment.
- Duration: Outline the time period over which these contributions will be made.
- Source of Funds: Identify whether the contributions come from savings, an inheritance, a gift, or an additional job.

4. Supporting Documentation

Attach any relevant documents that verify the contributions, such as bank statements, pay stubs, or proof of a gift.

5. Signature and Notarization

Sign the letter in the presence of a notary public if required by the lender. A notarized document adds credibility.

6. Closing Remarks

Reiterate the borrower's commitment to the loan and express gratitude for the lender's consideration.

Step by Step Guide to Writing Your Contribution Letter

Step 1: Gather Your Financial Information

Before you start writing, collect:

- Recent bank statements (last 3–6 months).
- Pay stubs or proof of other income.
- Documentation of any one time funds (inheritance, gifts).
- Existing debt obligations and monthly payment amounts.

Step 2: Draft a Clear and Concise Letter

Use a professional tone. Avoid jargon and keep sentences short. The letter should be easy for a lender's processor to read.

Step 3: Quantify Your Contributions

Be specific. Instead of saying "I can afford to pay more," state "I can contribute $300 per month for the next 12 months."

Step 4: Attach Supporting Documents

Include copies of statements that back up your claims. Lenders appreciate verifiable evidence.

Step 5: Review and Proofread

Check for typos, grammatical errors, and factual inaccuracies. A polished letter reflects seriousness.

Step 6: Sign and Notarize (if required)

Some lenders require notarization. Confirm with your loan servicer before submitting.

Sample Contribution Letter

Below is a fully fleshed out example to guide you. Feel free to adapt it to your own circumstances.

Sample Letter

John Doe
123 Maple Street
Anytown, CA 90210
Phone: (555) 123 4567
Email: john.doe@email.com

May 1, 2024

ABC Mortgage Servicing
Attn: Modification Department
456 Oak Avenue
Los Angeles, CA 90001

Re: Loan Modification Request – Account # 987654321

Dear Modification Officer,

I am writing to submit a contribution letter as part of my request for a mortgage modification on the above referenced loan. Due to recent job loss and a temporary reduction in household income, I am seeking a modification to avoid foreclosure and maintain ownership of my home.

Below is my proposed contribution plan:

- Monthly Contribution: I can contribute $350 toward the principal and interest each month for 12 months.
- One Time Payment: I will make a lump sum payment of $5,000 on or before June 30, 2024, sourced from a savings account and a partial inheritance.
- Duration: The monthly contributions will continue until the modified payment schedule is fully amortized.
- Source of Funds: The lump sum payment is from my savings (check attached bank statement) and an inheritance from a deceased relative (attached documentation).

I have attached supporting documents, including recent bank statements and proof of the inheritance. I am committed to meeting these contributions and believe this plan will help both parties avoid the costs and hardships associated with foreclosure.

Thank you for considering my request. Please let me know if you need any additional information.

Sincerely,

John Doe
(Signature)

Notarized on May 2, 2024 by Notary Public Jane Smith.

Tips for a Successful Contribution Letter

- Be Honest: Overstating contributions can backfire if the lender discovers discrepancies.

- Use Accurate Numbers: Double check all figures against your bank statements.
- Keep It Concise: Aim for 1–2 pages; lenders prefer quick, clear documents.
- Include a Timeline: A clear schedule shows the lender you have a realistic plan.
- Show Flexibility: Offer alternatives if the lender has concerns about the proposed amounts.
- Professional Formatting: Use a standard font (Times New Roman, Arial) and 12 point size.
- Proofread: Typos can undermine credibility.

Common Mistakes to Avoid

1. Missing Attachments: Failing to provide supporting documents can delay the process.
2. Vague Language: Statements like “I can contribute more” are too ambiguous.
3. Excessive Length: A 10 page letter may be skimmed or dismissed.
4. Inaccurate Figures: Even a small miscalculation can raise red flags.
5. Ignoring Lender Guidelines: Each lender may have specific formatting or content requirements.

How Lenders Use Your Contribution Letter

Once received, the lender’s modification team will:

- Cross check the contributions against your financial statements.
- Assess the impact on the loan’s amortization schedule.
- Determine if the proposed contributions meet the lender’s criteria for a modification.
- Consider any regulatory or program requirements (e.g., FHA, VA).
- Make a decision and communicate the outcome, often within 30–60 days.

Legal and Regulatory Considerations

Mortgage modifications are governed by various federal and state laws. Key points to remember:

- Truth in Lending Act (TILA): Requires accurate disclosure of terms.
- Real Estate Settlement Procedures Act (RESPA): Governs the disclosure of costs.
- Home Affordable Modification Program (HAMP): (if applicable) sets guidelines for qualifying modifications.
- State Consumer Protection Laws: May impose additional disclosure or procedural requirements.

Ensuring compliance can prevent legal challenges and improve the likelihood of approval.

Alternative Documents That Complement the Contribution Letter

In many cases, lenders will request additional documents alongside the contribution letter:

1. Affidavit of Support: A statement from a co borrower or guarantor.
2. Revised Budget: A detailed monthly budget showing income and expenses.
3. Credit Report: Updated to reflect recent changes.
4. Debt Statement: Outlining all outstanding obligations.
5. Employment Verification: Current job status or new employment offer.

When to Seek Professional Help

If you’re uncertain about crafting a contribution letter or navigating the modification process, consider consulting:

- Mortgage Counselors: Licensed professionals who specialize in loan modifications.
- Legal Advisors: Attorneys with experience in foreclosure prevention.

- Financial Planners: To create a realistic budget and contribution plan.
- Credit Counseling Agencies: Often provide free or low cost assistance.

Conclusion

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