

Matt Puzz

Mortgage Planning Specialist
Homeowners Financial Group
Phone: 602-410-9333
Fax: 602-447-9701

When Banks Fail, What Does it Mean to My Mortgage?

Last month, the fallout from the mortgage crisis took a rather unusual turn. For the first time in 20 years, several US banks went belly-up, most notably IndyMac Bank, the second largest financial institution to fail in US history, and one of the largest mortgage lenders in the country. Suddenly, IndyMac's bank account and mortgage holders found themselves in uncharted territory – what did this mean to their money and, more importantly, what did it mean to their homes?

Over the next few days and weeks, the Federal Reserve, which seized IndyMac's assets, did its best to assure IndyMac's customers that their bank accounts were protected by the Federal Deposit Insurance Corp (FDIC). This meant that typical checking and savings accounts were protected up to \$100,000 per individual and up to \$250,000 for retirement accounts, such as an IRA.

Mortgages, however, are not protected by the FDIC. What's more, the bank or entity that just went out of business, in this case IndyMac, may not be the actual "owner" of your mortgage. In the [February](#) issue of *YOU Magazine*, we showed you how mortgages and the rights to service them are often bought and sold by many investors.

Many of these investors hire a mortgage servicing company to collect and process each payment of your mortgage, and never actually receive any payments directly from consumers. This is why nearly half of all outstanding mortgage debt in the U.S. today is "purchased" or "owned" by either Fannie Mae or Freddie Mac.

Keep Paying Your Mortgage

Combined with a slowing economy and falling real estate values, additional banks will feel pressure if mortgage delinquencies continue to increase in the coming months. In fact, one banking analyst, Gerard Cassidy, of RBC Capital Markets, predicted last month that as many as 300 banks could fail in the next three years!

If you happen to hold a mortgage with a bank that goes down, the first thing you need to know is that your mortgage does not go away, so keep paying your mortgage payments on time every month. Remember, the entity that funded your mortgage may or may not be servicing it. So, keep detailed records of what you've paid and when, including any billing statements, canceled checks, or bank account statements. According to the FTC, there is a 60-day grace period after the transfer during which you cannot be charged a late fee if you mistakenly send your mortgage payment to the old servicer – but don't count on this!

Unfortunately, mistakes are made, so continue to make your mortgage payments, and keep copies of any and all letters and/or documents for your records. You have the right to dispute errors on your credit report that may result from a transfer of service, but you will not successfully challenge the credit bureaus without accurate documentation, even if you're telling the truth.

It's important to note that the company responsible for servicing your mortgage is required to send you a letter 15 days in advance of any transfer. In addition, the new company responsible for servicing your loan must advise you that your mortgage has been transferred 15 days after the transfer has occurred.

According to the Federal Trade Commission (FTC), the notices must also include:

- The name and address of the new servicer;
- The date the current servicer will stop accepting your mortgage payments;
- The date the new servicer will begin accepting your mortgage payments;
- Toll-free and collect-call telephone numbers (for the current and new mortgage servicer);
- Information about whether you can continue any optional insurance; what action, if any, you must take to maintain coverage; and whether the insurance terms will change; and
- A statement that the transfer will not affect any terms or conditions of your mortgage, except those directly related to the servicing of the loan.

Be aware: there are plenty of scammers out there that try to take advantage of people during this confusing transition. If you receive notification that your mortgage has been sold, make sure all of the above information is given and use it to confirm that the transfer is legitimate before you send a payment to the new company. Don't be afraid to pick up the phone and call your existing mortgage company to find out the truth.

In the past, scammers have sent very convincing, professional-looking letters to homeowners stating that their mortgage or mortgage servicing has been sold. Before the fraud can be discovered, the homeowner's credit may have already been damaged and, even worse, they're unable to recover any of their money they lost to the scammers.

Don't let this happen to you or someone you know. If your mortgage company goes out of business, remember that the terms of your mortgage, and your mortgage itself, will not go away. Keep paying, but be on the lookout for any information regarding the servicing of your mortgage and take the time to investigate, confirm, and document the transfer of service. Remember, this is your hard-earned money and credit on the line, and it's up to you to protect it.

For additional information about your mortgage, please contact the mortgage professional that supplied you with this month's issue of *YOU Magazine*.