U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING –
FEDERAL HOUSING COMMISSIONER

Date: August 29, 2019

Mortgagee Letter 2019-14

To: All FHA Approved Mortgagees
All Direct Endorsement Underwriters
All FHA Roster Appraisers
All FHA Roster Inspectors
All FHA Approved 203(k) Consultants
All HUD Approved Housing Counselors
All HUD Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject	Updates to FHA's Loss Mitigation Options for Borrowers in Presidentially-Declared Major Disaster Areas (PDMDAs)
Purpose	The purpose of this Mortgagee Letter (ML) is to inform mortgagees of updated procedures for the evaluation and use of FHA's Loss Mitigation Home Retention Options for Borrowers whose insured mortgage and/or employment is in a Presidentially-Declared Major Disaster Area.
Effective Date	Mortgagees must implement the procedures set forth in this Mortgagee Letter no later than November 30, 2019 but may begin using the new procedures immediately. All policy updates will be incorporated into a forthcoming update of the HUD Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1).
Public Feedback	HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send feedback to the FHA Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.
Affected Programs	This guidance applies to all FHA Title II forward mortgage programs.

Affected Topics

This guidance will affect Handbook 4000.1, section III.A.3.c.iv, *Loss Mitigation for Borrowers in PDMDAs*.

Background

Mortgagee Letter 2018-01 temporarily amended the Loss Mitigation procedures for Disaster-Affected Borrowers referenced in Section III.A.3.c.iv of Handbook 4000.1 for borrowers with FHA-insured mortgages whose property and/or place of employment is in the Presidentially-Declared Major Disaster Areas (PDMDAs) of Hurricanes Harvey, Irma and Maria or certain California Wildfires, Flooding, Mudflows, and Debris Flows. The Mortgagee Letter streamlined income documentation and other requirements to expedite loss mitigation relief for affected borrowers and introduced a new "Disaster Standalone Partial Claim" option to help eligible borrowers on forbearance resume their pre-disaster mortgage payments and avoid payment shock. HUD is now incorporating changes into Handbook 4000.1 that further streamline and revise Loss Mitigation procedures applicable to all PDMDAs.

Summary of Changes

Changes to HUD Handbook 4000.1 affected topics are as follows:

- *Loan Modification without a Financial Evaluation* (section III.A.3.c.iv(C)) paragraph title has been changed to Disaster Loan Modification.
- *Eligibility for Loan Modification without Financial Evaluation* (section III.A.3.c.iv(C)(1)) has been modified to allow Mortgagees to confirm Borrower employment and income using a recent pay stub for Income, a W-2, a bank statement or other documentation reflecting the amount of income. As an alternative to providing income documentation, the borrower can complete a three month Trial Payment Plan (TPP) to confirm income has returned to pre-disaster levels. The TPP does not have to be signed by the borrower.
- *Terms of the Loan Modification* (section III.A.3.c.iv(C)(2)) has been modified to delete the Trial Payment Plan requirement, allow the term of the modified mortgage to be less than 360 months from the modification effective date and allow the interest rate to be equal to or less than the Market Rate as defined by HUD.
- *Disaster Standalone Partial Claim* (new section III.A.3.c.iv(D)) has been added to provide a streamlined alternative Loss Mitigation solution that Mortgagees may use with disaster-affected borrowers who do not qualify for a Disaster Loan Modification. As a Trial Payment Plan is not required, the requirement that the Borrower demonstrates the ability to resume total monthly mortgage payments of Principal and Interest (P&I) has been eliminated. A signed Trial Payment Plan is no longer required and the borrower can make three consecutive monthly mortgage payments as an alternative to income and employment documentation.

- For Disaster Loss Mitigation Permanent Retention Options (Disaster Loan Modification, Disaster Standalone Partial Claim and FHA-HAMP) utilized to cure a delinquency associated with a PDMDA, the requirement that a borrower can only receive a Loan Modification and/or FHA-HAMP once within a 24-months period has been eliminated. Borrower(s) can only receive one Permanent Loss Mitigation Home Retention Option for a PDMDA.
- Required Financial Evaluation for other Loss Mitigation Home Retention Options (section III.A.3.c.iv(D)) has been redesignated as subparagraph (E) and modified to apply to Borrowers who do not qualify for either the Disaster Loan Modification or Disaster Standalone Partial Claim Options.
- *Home Disposition Options* (section III.A.3.c.iv(E)) has been redesignated as subparagraph (F).
- *Suspension of Reporting to Consumer Reporting Agencies* (section III.A.3.c.iv(F)) has been redesignated as subparagraph (G).
- *Waiver of Late Charges* (section III.A.3.c.iv(G)) has been redesignated as subparagraph (H).

The above-mentioned policy changes will be incorporated into Handbook 4000.1 and appear as follows:

HUD Single Family Housing Policy Handbook 4000.1

Disaster Loan Modification (III.A.3.c.iv(C))

For Borrowers who receive Informal or Formal Forbearances based solely on location of their mortgaged Property or place of employment within a PDMDA, the Mortgagee must offer Rate and Term modifications at the end of the forbearance period based on the following criteria.

(1) Eligibility for Disaster Loan Modification

The Mortgagee must ensure that Borrowers and their FHA-insured Mortgages meet the following eligibility and term requirements for a Disaster Loan Modification:

- The Mortgage was current or less than 30 Days past due as of the date of the applicable Disaster Declaration.
- The Mortgagee confirms Borrower income is equal to or greater than it was prior to the Disaster using a recent pay stub for income, W-2, bank statement or other documentation reflecting the amount of income.
- As an alternative to providing income documentation, the Borrower can complete a three month Trial Payment Plan (TPP), which will confirm that their income has returned to pre-disaster levels. The TPP does not have to be signed by the Borrower.

- The Property is owner-occupied.

(2) Terms of the Disaster Loan Modification

The Mortgagee must modify the Mortgage as follows:

- The total Principal and Interest (P&I) amount of a Borrower's monthly Mortgage Payment does not change.
- The Mortgagee must capitalize into a modified mortgage balance:
  - the accumulated arrearages for unpaid accrued interest; and
  - eligible unreimbursed Mortgagee advances and related fees and costs chargeable to the Mortgage.
- The Mortgagee waives the Borrower's accumulated late fees.
- The Mortgagee sets the interest rate at no greater than the Market Rate[1] as defined by HUD.
- The term for the modified loan is 360 months. The term may be less than 360 months if (i) requested by the Borrower and (ii) a term that is less than 360 does not result in the modified P&I being greater than current P&I.
- Borrower(s) can only receive one Permanent Loss Mitigation Home Retention Option for a PDMDA.

Disaster Standalone Partial Claim (III.A.3.c.iv(D)

The Mortgagee must evaluate Borrowers for a Disaster Standalone Partial Claim at the end of the Forbearance period if the Borrower does not qualify for a Disaster Loan Modification. Use of the Disaster Standalone Partial Claim requires that each criterion below be met:

- The Mortgage was current or less than 30 Days past due as of the date of the applicable Disaster Declaration.
- The Mortgagee confirms Borrower income is equal to or greater than it was prior to the Disaster using a recent pay stub for income, W-2, bank statement or other documentation reflecting the amount of income.
- As an alternative to providing income documentation, the Borrower can complete a three month Trial Payment Plan (TPP), which will confirm that their income has returned to pre-disaster levels. The TPP does not have to be signed by the Borrower.
- The Property is owner-occupied.

- The total Principal and Interest (P&I) amount of a Borrower's monthly Mortgage Payment does not change.

[1] The term "Market Rate" is defined as a rate that is no more than 25 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed-rate conforming mortgages (U.S. average), rounded to the nearest one-eighth of one percent (0.125%), as of the date a Trial Payment Plan is offered to a Borrower for an FHA-HAMP option *or* the date the borrower is offered a permanent Disaster Rate and Term Loan Modification. The Weekly PMMS results are published on Freddie Mac's website at *http://www.freddiemac.com/pmms/*.

- The Mortgagee waives the Borrower's accumulated late fees.
- The Disaster Standalone Partial Claim is subject to the maximum statutory value of all Partial Claims[2] for an FHA-insured Mortgage.
- Borrower(s) can only receive one Permanent Loss Mitigation Home Retention Option for a PDMDA.

Required Financial Evaluation for other Loss Mitigation Home Retention Options (III.A.3.c.iv(E))

Following evaluation for, and completion of, approved forbearances, the Mortgagee must evaluate those Borrowers who do not qualify for either the "Disaster Loan Modification or "Disaster Standalone Partial Claim" Options for other Loss Mitigation Home Retention Options.

Borrowers who do not currently have an increase in living expenses but are Delinquent due to a forbearance received following a Disaster Declaration are deemed to satisfy the eligibility conditions for FHA Loss Mitigation Home Retention Options.

Terms of the Mortgage Loan are Unaffected

Nothing in Handbook 4000.1 confers any right to a Borrower to any loss mitigation or any other action by HUD or the Mortgagee. Further, nothing in this Mortgagee Letter interferes with any right of the Mortgagee to enforce its private contractual rights under the terms of the Mortgage Loan. All private contractual rights and obligation remain unaffected by anything in this Mortgagee Letter. Where a Mortgagee chooses to enforce its contractual rights after expiration of any automatic foreclosure moratorium, the standard timeframes to initiate foreclosure and reasonable diligence in prosecuting foreclosure following expiration of a foreclosure moratorium will apply.

Use of Loan Modification Option

The Mortgagee must ensure that the Borrower occupies the dwelling as an owner-occupant before completing a Loan Modification.

Home Disposition Options (III.A.3.c.iv(F))

Home Disposition Options are also available to Borrowers that are in disaster areas.

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[2] The statutory maximum value of all Partial Claims (i.e., *combined)* is 30 percent (30%) of the Unpaid Principal Balance of each FHA-insured Mortgage and any costs that are approved by the Secretary. For purposes of calculating the maximum Partial Claim value for each loss mitigation action, it is the lesser of: (1) the Unpaid Principal Balance as of the date of Default associated with the initial Partial Claim, if applicable, multiplied by 30 percent, less any previous Partial Claim(s) paid on the FHA-insured Mortgage; (2) if there are no previous Partial Claim(s), the Unpaid Principal Balance as of the date of the current Default multiplied by 30 percent; or (3) the total amount required to meet the targeted Mortgage payment. The Partial Claim amount may include arrearages, legal fees and foreclosure costs related to a canceled foreclosure action and principal deferment.

Pre-Foreclosure Sale or Deed in Lieu of Foreclosure.

- The Mortgage was current or less than 30 Days past due as of the date of the applicable Disaster Declaration.
- The Mortgagee obtains from the Borrower a recent pay stub for income, W-2, bank statement or other documentation reflecting the amount of income.
- The Property was owner-occupied.

Suspension of Reporting to Consumer Reporting Agencies [Text was deleted in this section] (III.A.3.c.iv(G))

The Mortgagee must suspend reporting of delinquencies to consumer reporting agencies for a Borrower who is granted disaster-related Mortgage Payment relief and is otherwise performing as agreed.

Waiver of Late Charges (III.A.3.c.iv(H))

The Mortgagee must waive Late Charges as long as the Borrower is on a Forbearance Plan or paying as agreed on a Loss Mitigation Option.

Paperwork Reduction Act

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Numbers 2502-0429, 2502-0583 and 2502-0584. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

Questions

Any questions regarding this Mortgagee Letter may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers.

Signature

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Federal Housing Commissioner
