



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: July 23, 2021

Mortgagee Letter 2021-18

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
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 COVID-19 Recovery Loss Mitigation Options

Purpose The purpose of this Mortgagee Letter (ML) is to inform Mortgagees of the establishment of the COVID-19 Recovery Loss Mitigation Options (COVID-19 Recovery Options).

Effective Date The policies in this ML may be implemented immediately but must be implemented no later than 90 Days from the date of publication of this ML.

This does not impact previously announced effective dates for the COVID-19 Advance Loan Modification (COVID-19 ALM).

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 Single Family forward mortgage programs.

Affected Topics

This ML supersedes FHA's COVID-19 Loss Mitigation policies for Borrowers of FHA-insured forward Mortgages impacted by COVID-19 in section III.A.2.o. Presidentially-Declared COVID-19 National Emergency of HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Background

On February 16, 2021, in support of the goal of achieving broad economic recovery following the pandemic, FHA established expanded COVID-19 Loss Mitigation Options to address the impacts many Americans are experiencing in recovering financially from the long-lasting effects of the pandemic. On June 25, 2021, FHA established the COVID-19 Advance Loan Modification (COVID-19 ALM). The COVID-19 ALM is proactively offered to eligible delinquent Borrowers who can achieve a 25 percent reduction to the Principal and Interest (P&I) portion of the Borrower's monthly mortgage payment through a 30-year rate and term loan modification.

FHA continues to evaluate both the effects of the pandemic on its portfolio as well as the economic indicators of the broader recovery. While economic indicators are trending positive, FHA has determined that given the nature of COVID-19 hardships homeowners have faced, broader payment relief may be necessary to support a sustained and equitable recovery as well as to protect the Mutual Mortgage Insurance Fund (MMIF).

With these goals in mind, FHA has evaluated ways to streamline the existing COVID-19 Loss Mitigation Options and established the COVID-19 Recovery Modification that targets a 25 percent P&I reduction for all Borrowers who are unable to return to making their existing mortgage payments. For Borrowers who can return to making their existing mortgage payments, FHA's COVID-19 Recovery Standalone Partial Claim will enable those Borrowers to quickly resolve the outstanding delinquency and arrearages through a zero-interest subordinate lien.

The COVID-19 Recovery Standalone Partial Claim will replace the COVID-19 Standalone Partial Claim.

The COVID-19 Recovery Modification will replace the following COVID-19 Home Retention Options:

- COVID-19 Owner-Occupant Loan Modification;
- COVID-19 Combination Partial Claim and Loan Modification; and
- COVID-19 FHA Home Affordable Modification Program (FHA-HAMP) Combination Loan Modification and Partial Claim with Reduced Documentation.

The COVID-19 Recovery Non-Occupant Loan Modification replaces the COVID-19 Non-Occupant Loan Modification.

The COVID-19 Recovery Standalone Partial Claim is a zero-interest subordinate lien for a Borrower's arrearages. This option is available for Borrowers who affirm they can resume their existing monthly mortgage payment. In order to preserve flexibility to provide loss mitigation options for natural disasters and other default episodes that may arise in the future, the COVID-19 Recovery Standalone Partial Claim is limited to 25 percent of the Borrower's unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim.

The COVID-19 Recovery Modification is a 360-month loan modification, which must include a Partial Claim, if available. A Partial Claim as part of a COVID-19 Recovery Modification is limited to 25 percent of the Borrower's unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim.

HUD is requiring Mortgagees to use the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) interest rate, rounded to the nearest one-eighth of 1 percent (0.125 percent) for the COVID-19 Recovery Modification and the COVID-19 Recovery Non-Occupant Loan Modification. This removes the additional 25 Basis Points (bps) currently permitted to provide additional payment relief to Borrowers.

The revised COVID-19 Recovery Options will provide a path to deep and sustained recovery for Borrowers who were significantly impacted by the pandemic. The pandemic has caused a lengthy period of instability that has deeply impacted FHA homeowners requiring a streamlined approach to ensure Borrowers remain in their homes whenever possible. FHA anticipates these COVID-19 Recovery Options will particularly help low-income households, first-time homeowners, and households of color that have been disproportionately impacted by the pandemic. FHA encourages Mortgagees and Borrowers alike to utilize the extensive network of HUD-approved Housing Counselors to help explain and expedite this additional relief.

The American Rescue Plan Act of 2021 established the Homeowner Assistance Fund (HAF) in the U.S. Department of the Treasury in order to provide financial assistance to eligible homeowners who have suffered financial hardships during the COVID-19 National Emergency. Qualified expenses may include mortgage payment assistance, mortgage reinstatement, utilities, insurance, and other housing-related costs. Mortgagees must inform Borrowers suffering financial distress that these additional resources may be available through their state. As permitted by the jurisdiction's HAF program, HAF funds may be used in connection with the Borrower's FHA-insured mortgage or any partial claim mortgage in a manner consistent with the respective

mortgage documents and FHA requirements. More information on HAF is available at: <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/homeowner-assistance-fund>.

Summary of Changes

This ML establishes the COVID-19 Recovery Home Retention Options and associated Single Family Default Monitoring System (SFDMS) Status Codes, which include the following:

- COVID-19 Recovery Standalone Partial Claim;
- COVID-19 Recovery Modification; and
- COVID-19 Recovery Non-Occupant Loan Modification.

The following COVID-19 Loss Mitigation Options are being replaced:

- COVID-19 Standalone Partial Claim;
- COVID-19 Owner-Occupant Loan Modification;
- COVID-19 Combination Partial Claim and Loan Modification;
- COVID-19 FHA-HAMP Combination Loan Modification and Partial Claim with Reduced Documentation; and
- COVID-19 Non-Occupant Loan Modification.

This ML streamlines the requirements for the COVID-19 Pre-Foreclosure Sale.

This ML also establishes the deadline by which Borrowers who have not been on a COVID-19 Forbearance may request COVID-19 loss mitigation assistance.

Single Family Housing Policy Handbook 4000.1

The above policy changes will be incorporated into Handbook 4000.1 as appears below.

**Presidentially-Declared COVID-19 National Emergency (III.A.2.o)
Loss Mitigation for Borrowers Affected by the COVID-19 National Emergency**

The following loss mitigation options are available to assist Borrowers impacted, directly or indirectly, by COVID-19:

- COVID-19 Forbearance;
- COVID-19 Advance Loan Modification;
- COVID-19 Recovery Standalone Partial Claim;
- COVID-19 Recovery Modification;
- COVID-19 Recovery Non-Occupant Loan Modification;
- COVID-19 Pre-Foreclosure Sale; and
- COVID-19 Deed-in-Lieu of Foreclosure.

i. Forbearance for Borrowers Affected by the COVID-19 National Emergency (COVID-19 Forbearance) [Mortgagees must approve the initial COVID-19 Forward Forbearance no later than September 30, 2021.]

(A) Definition

The COVID-19 Forbearance provides Borrowers who experience an adverse impact on their ability to make on-time Mortgage Payments due to the COVID-19 pandemic with a forbearance period, which allows for one or more periods of reduced or suspended payments without specific terms of repayment.

(B) Standard

Upon Borrower request, Mortgagees must offer a COVID-19 Forbearance to any Borrower that experiences an adverse impact on their ability to make on-time Mortgage Payments due to the COVID-19 pandemic, regardless of Default status.

All FHA Borrowers are eligible for a COVID-19 Forbearance, regardless of the delinquency status of the Mortgage.

The Mortgagee may utilize any available method for communicating with a Borrower regarding a COVID-19 Forbearance to meet these requirements. Acceptable methods of communication regarding a COVID-19 Forbearance include, but are not limited to, emails, text messages, fax, teleconferencing, websites, web portals, etc. If a Mortgagee sends out a general communication advising that a COVID-19 Forbearance is available, the Borrower may reply to that communication requesting a COVID-19 Forbearance via email, phone call, or any other method of communication clearly made available to the Borrower by the Mortgagee.

The term of the initial and any additional COVID-19 Forbearance period may be shortened at the Borrower's request.

The Mortgagee must waive all Late Charges, fees, and penalties, if any, as long as the Borrower is on a COVID-19 Forbearance Plan.

No COVID-19 Forbearance period may extend beyond June 30, 2022.

COVID-19 Forbearance Period, Based on Date of Initial COVID-19 Forbearance

Initial Forbearance Date	Initial Forbearance Period	Additional Forbearance Period	Forbearance Extensions	Maximum Forbearance Period
March 1, 2020 – June 30, 2020	Up to 6 months	Up to 6 months	Up to 6 months (in 3-month increments)	Up to 18 months
July 1, 2020 – Sept. 30, 2020	Up to 6 months	Up to 6 months	Up to 3 months	Up to 15 months
Oct. 1, 2020 – June 30, 2021	Up to 6 months	Up to 6 months	0	Up to 12 months
July 1, 2021 – Sept. 30, 2021	Up to 6 months	0	0	Up to 6 months

(1) Initial COVID-19 Forbearance Requested on or before June 30, 2020

The initial COVID-19 Forbearance period may be up to six months. If needed, an additional COVID-19 Forbearance period of up to six months may be requested by the Borrower and must be approved by the Mortgagee. After 12 months of COVID-19 Forbearance, if needed, the Borrower may request, and the Mortgagee must approve, up to two additional three-month COVID-19 Forbearance extension periods. Each three-month extension must be requested individually. Neither of the two additional three-month extension periods may extend beyond December 31, 2021. The maximum COVID-19 Forbearance period for these Borrowers is 18 months.

(2) Initial COVID-19 Forbearance Requested between July 1, 2020 and September 30, 2020

The initial COVID-19 Forbearance period may be up to six months. If needed, an additional COVID-19 Forbearance period of up to six months may be requested by the Borrower and must be approved by the Mortgagee. After 12 months of COVID-19 Forbearance, if needed, the Borrower may request, and the Mortgagee must approve, one additional three-month COVID-19 Forbearance extension period. The additional three-month extension period must not extend beyond December 31, 2021. The maximum COVID-19 Forbearance period for these Borrowers is 15 months.

(3) Initial COVID-19 Forbearance Requested between October 1, 2020 and June 30, 2021

The initial COVID-19 Forbearance period may be up to six months. If needed, an additional COVID-19 Forbearance period of up to six months may be requested by the Borrower and must be approved by the Mortgagee. The COVID-19 Forbearance must not extend beyond June 30, 2022. The maximum COVID-19 Forbearance period for these Borrowers is 12 months.

(4) COVID-19 Forbearance Requested between July 1, 2021 and September 30, 2021

The maximum COVID-19 Forbearance period for these Borrowers is six months. This COVID-19 Forbearance period must not extend beyond March 31, 2022.

(C) Reporting to Consumer Reporting Agencies of Borrowers on a COVID-19 Forbearance

Any Borrower who is granted a COVID-19 Forbearance and is otherwise performing as agreed is not considered to be Delinquent for purposes of credit reporting.

FHA requires Mortgagees to comply with the credit reporting requirements of the Fair Credit Reporting Act (FCRA); however, FHA encourages Mortgagees to consider the impacts of COVID-19 on Borrowers' financial situations and any flexibilities a Mortgagee may have under the FCRA when taking any negative credit reporting actions.

ii. COVID-19 Advance Loan Modification (Pre-Waterfall Step)

The Mortgagee must review eligible Borrowers for a COVID-19 Advance Loan Modification (COVID-19 ALM).

(A) Definition

A COVID-19 ALM is a permanent change in one or more terms of a Borrower's Mortgage that achieves a minimum 25 percent reduction to the Borrower's monthly Principal & Interest (P&I) payment that does not require Borrower contact.

The COVID-19 ALM is not incentivized.

(B) Eligibility

The Property may be owner-occupied or non-owner occupied.

The Borrower must be 90 or more Days Delinquent.

A 30-year **L**oan **M**odification at the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate rounded to the nearest one-eighth of 1 percent (0.125 percent) will achieve a minimum 25 percent reduction in the Borrower's monthly P&I.

(C) Standard

Mortgagees must review Borrowers for the COVID-19 ALM as follows:

- The Mortgagee must review all Borrowers on a COVID-19 Forbearance for a COVID-19 ALM within 30 Days of the expiration of the Forbearance.
- Borrowers who are 90 or more days delinquent and not on a COVID-19 Forbearance must be considered for a COVID-19 ALM through the termination of the COVID-19 National Emergency.
- No later than August 24, 2021, the Mortgagee must review the following Borrowers for a COVID-19 ALM where the Mortgagee has not yet sent out the final documents to the Borrower to complete a Loss Mitigation Option as of June 25, 2021:
 - Borrowers who have exited or requested to exit their COVID-19 Forbearance;
 - Borrowers whose COVID-19 Forbearance has expired or will expire by August 24, 2021; or
 - Borrowers who were not on a COVID-19 Forbearance.

If the Borrower is eligible, the Mortgagee must:

- prepare and send out the Loan Modification documents to the Borrower; and
- provide a cover letter that includes:
 - an explanation of terms including the modified Mortgage Payment amount;
 - the date the next payment is due;
 - a statement that no lump sum payment is required;
 - a statement that if the Borrower does not accept this offer, this does not **prevent** them from obtaining another Loss Mitigation Option to bring their Mortgage current;

- a statement that the Borrower must sign and return the Loan Modification documents within 30 Days of receipt of the documents; and
- information for the Borrower to contact the Mortgagee, if needed.

The Mortgagee does not have to contact the Borrower prior to reviewing the Borrower for the COVID-19 ALM or sending out the modification documents.

Borrowers who do not qualify for the COVID-19 ALM or who do not complete and return the signed COVID-19 ALM Loan Modification documents must be evaluated for the COVID-19 Recovery Options.

(D) Terms

The Mortgagee must ensure that:

- the COVID-19 ALM achieves a minimum 25 percent P&I monthly payment reduction;
- the modified Mortgage is a fixed rate Mortgage;
- the interest rate of the modified Mortgage is the PMMS Rate rounded to the nearest one-eighth of 1 percent (0.125 percent);
- the term for the modified Mortgage is 360 months;
- the COVID-19 ALM only capitalizes arrearages, which refers to any amounts needed to bring the Borrower current and includes:
 - unpaid accrued interest;
 - Mortgagee advances for escrow items;
 - projected escrow shortage amount;
 - related legal fees and foreclosure and bankruptcy costs not higher than the foreclosure-related fees and costs HUD has identified as customary and reasonable; and
 - Mortgagees may include an additional month in the total outstanding debt to be resolved to allow time for the Borrower to return the executed Loan Modification documents before the modified Mortgage Payment begins;
- the COVID-19 ALM fully reinstates the Mortgage; and
- all Late Charges, fees, and penalties are waived except that Mortgagees are not required to waive Late Charges, fees, and penalties, if any, accumulated prior to March 1, 2020.

HUD does not provide a model for COVID-19 ALM documents, but the Mortgagee must ensure the FHA-insured Mortgage remains in first lien position and is legally enforceable.

(E) Required Documentation

(1) Servicing File

For those Borrowers that were sent an offer for a COVID-19 ALM, a copy of the cover letter and Loan Modification documents must be retained in the Servicing File.

Mortgagees are not required to note in each individual Borrower's file if the Borrower does not qualify for the COVID-19 ALM.

(2) Reporting to HUD

The Mortgagee must report the use of the COVID-19 ALM in SFDMS using Default Reason Code 055 and Default Status Code 3A – Advance Modification Started.

If the Borrower does not return the executed documents within 30 Days, the Mortgagee must report Default Status Code AQ – Option Failure.

The Mortgagee must report the characteristics of the non-incentivized COVID-19 ALM, including the rate and term, in FHAC within 90 Days of the executed COVID-19 ALM.

iii. COVID-19 Recovery Loss Mitigation Options

(A) Definition

The COVID-19 Recovery Loss Mitigation Options (COVID-19 Recovery Options) provide Borrowers impacted, directly or indirectly, by COVID-19 with options to bring their Mortgage current and may reduce the P&I portion of their monthly Mortgage Payment to reduce the risk of re-default and assist in the broader COVID-19 recovery.

The COVID-19 Recovery Options are not incentivized for Mortgagees.

(B) Standard

The Mortgagee must review eligible Borrowers for the COVID-19 Recovery Options. Eligible Borrowers may receive more than one COVID-19 Recovery Option.

(1) Borrowers who were on a COVID-19 Forbearance

The Mortgagee must review all Borrowers who were on a COVID-19 Forbearance for the COVID-19 Recovery Options after the completion or expiration of the Borrower's forbearance period.

Mortgagees may review the Borrower for the COVID-19 Recovery Options prior to the completion or expiration of the Borrower's forbearance period. A Borrower does not need to exit their forbearance to be reviewed for the COVID-19 Recovery Options.

The Mortgagee must complete a loss mitigation option for these Borrowers no later than 120 Days from the earlier of the date of completion or expiration of the forbearance. The 120-Day period to complete a loss mitigation option includes the COVID-19 ALM. For Home Disposition Options, a signed Approval to Participate (ATP) Agreement (form HUD-90045) or a signed DIL Agreement will meet this requirement.

(2) Borrowers who were not on a COVID-19 Forbearance

The Mortgagee must review all Borrowers who did not participate on a COVID-19 Forbearance for the COVID-19 Recovery Options when the Borrower is 90 or more Days Delinquent and the Borrower affirms they have been negatively impacted by COVID-19. These Borrowers may request COVID-19 loss mitigation assistance through the termination of the COVID-19 National Emergency.

The Mortgagee must complete a loss mitigation option for these Borrowers no later than 120 Days from the date of the Borrower's request for loss mitigation assistance. The 120-Day period to complete a loss mitigation option includes the COVID-19 ALM. For Home Disposition Options, a signed ATP Agreement (form HUD-90045) or a signed DIL Agreement will meet this requirement.

The Mortgagee must document the date of the request for loss mitigation assistance in the Servicing File.

(3) Re-Review of Borrowers

The Mortgagee must re-review the following Borrowers and implement the COVID-19 Recovery Options no later than October 21, 2021, if:

- the Mortgagee has not yet sent out the final documents to the Borrower to complete one of the COVID-19 Home Retention Options found in ML 2021-05 as of August 22, 2021;
- the Borrower was not eligible for a COVID-19 Home Retention Option; or

- the Borrower became Delinquent due to the COVID-19 pandemic after reinstating using a COVID-19 Home Retention Option.

The Mortgagee has 120 Days to complete a loss mitigation action.

(4) Homeowner Assistance Fund

The Mortgagee must inform the Borrower, utilizing any available method of communication, that they can apply for the Department of Treasury's Homeowner Assistance Fund (HAF), if HAF is available in their jurisdiction.

As permitted by the jurisdiction's HAF program, HAF funds may be used in connection with the Borrower's FHA-insured Mortgage or any Partial Claim Mortgage in a manner consistent with the respective mortgage documents and FHA requirements.

(C) COVID-19 Recovery Home Retention Options

A Trial Payment Plan (TPP) is not required for a Borrower to be eligible for the COVID-19 Recovery Options.

(1) COVID-19 Recovery Standalone Partial Claim

The COVID-19 Recovery Standalone Partial Claim reinstates the Mortgage through the use of a Partial Claim for Borrowers impacted by COVID-19 who are able to resume their Mortgage Payments.

The Mortgagee must evaluate Owner-Occupant Borrowers impacted by COVID-19 for a COVID-19 Recovery Standalone Partial Claim.

(a) Eligibility

The Mortgagee must ensure that:

- the Borrower indicates they have the ability to resume making on-time Mortgage Payments; and
- the Property is owner-occupied.

(b) Terms

The Mortgagee must ensure that:

- the COVID-19 Recovery Standalone Partial Claim fully reinstates the Mortgage;
- the COVID-19 Recovery Standalone Partial Claim amount includes only arrearages, which refers to any

amounts needed to bring the Borrower current and includes:

- Mortgagee advances for escrow items;
 - projected escrow shortage amount; and
 - related legal fees and foreclosure and bankruptcy costs not higher than the foreclosure-related fees and costs HUD has identified as customary and reasonable; and
- for a COVID-19 Recovery Standalone Partial Claim, the Partial Claim must not exceed 25 percent of the unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim less any previous Partial Claims paid.
 - The Mortgagee must first calculate 25 percent of the unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim.
 - The Mortgagee must then subtract any previous Partial Claims paid to determine the available Partial Claim amount that can be used for the COVID-19 Recovery Standalone Partial Claim.

Mortgagee must ensure that all Late Charges, and penalties are waived. Mortgagees are not required to waive Late Charges, and penalties, if any, accumulated prior to March 1, 2020.

Eligible Borrowers may receive more than one COVID-19 Recovery Standalone Partial Claim.

(c) Document Delivery Requirements

The Mortgagee must submit all required documentation for COVID-19 Recovery Standalone Partial Claims as listed under [FHA-HAMP Loan Documents](#) (III.A.2.k.v(H)), except that no TPP is required.

The Mortgagee is automatically granted a 90-Day extension to the six-month deadline for the recorded Mortgage.

If a Mortgagee experiences additional delays out of their control, including past the automatic 90-Day extension for the recorded Mortgage, that impact delivery of the Partial Claim documents, Mortgagees may file requests for an additional extension in accordance with [Requests for Extensions of Time for Delivery of Partial Claim Documents](#) (III.A.2.k.v(H)(7)).

(d) Required Documentation

(i) Servicing/Claim Review File

The Mortgagee must retain the following in the Servicing File and the Claim Review File:

- a copy of the executed Partial Claim promissory Note and subordinate Mortgage;
- evidence that the Mortgage was timely submitted for recording; and
- the date the Mortgagee received the executed Partial Claim documents from the Borrower and the date the subordinate Mortgage was sent to be recorded.

(ii) Reporting to HUD

The Mortgagee must report the use of a COVID-19 Recovery Standalone Partial Claim in SFDMS.

(2) COVID-19 Recovery Modification

For Borrowers who do not meet the requirements for a COVID-19 Recovery Standalone Partial Claim, the Mortgagee must review the Borrower for the COVID-19 Recovery Modification.

(a) Definition

The COVID-19 Recovery Modification is a 360-month Loan Modification, which must include a Partial Claim, if Partial Claim funds are available. The COVID-19 Recovery Modification targets a reduction in the P&I portion of the Borrower's monthly Mortgage Payment.

The Target Payment of the COVID-19 Recovery Modification is a payment that achieves a 25 percent reduction to the P&I portion of the Borrower's monthly Mortgage Payment.

(b) Eligibility

The Mortgagee must ensure that:

- the Borrower indicates they have the ability to make the modified Monthly Payment; and
- the Property is owner-occupied.

Eligible Borrowers may receive more than one COVID-19 Recovery Modification.

(c) Standard

To arrive at the Target Payment, the Mortgagee must apply the following steps until the Target Payment is achieved. No income documentation is required to calculate the Borrower's modified monthly Mortgage Payment.

Step 1 – Calculate Partial Claim Availability

The Mortgagee must determine the maximum Partial Claim amount available for a COVID-19 Recovery Modification.

For a Partial Claim as part of a COVID-19 Recovery Modification, the Partial Claim must not exceed 25 percent of the unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim less any previous Partial Claims paid.

- The Mortgagee must first calculate 25 percent of the unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim.
- The Mortgagee must then subtract any previous Partial Claims paid to determine the available Partial Claim amount that can be used for the COVID-19 Recovery Modification.

Step 2 – Arrearages

The Mortgagee must calculate the arrearages. Arrearages refers to any amounts needed to bring the Borrower current and includes:

- unpaid accrued interest;
- Mortgagee advances for escrow items;
- projected escrow shortage amount; and
- related legal fees and foreclosure and bankruptcy costs not higher than the foreclosure-related fees and costs HUD has identified as customary and reasonable.

Mortgagees may include an additional month in the total outstanding debt to be resolved to allow time for the Borrower to return the executed Loan Modification documents before the modified Mortgage Payment.

The Mortgagee must ensure that all Late Charges and penalties are waived. Mortgagees are not required to waive

Late Charges and penalties, if any, accumulated prior to March 1, 2020.

Step 3 – Modify the Rate and Term of the Mortgage

The modified Mortgage is a 360-month Loan Modification, which must include a Partial Claim, if Partial Claim funds are available.

The Mortgagee must first apply available Partial Claim funds toward the arrearages. If the Partial Claim funds are insufficient to cure the arrearages, then the Mortgagee must capitalize the remaining arrearages into the modified Mortgage.

The Mortgagee must then extend the term to 360 months and calculate the modified Mortgage Payment. The interest rate of the modified Mortgage is no greater than the most recent PMMS Rate for 30-year fixed rate conforming Mortgages (U.S. average), rounded to the nearest one-eighth of 1 percent (0.125 percent) as of the date the Borrower is offered a COVID-19 Recovery Modification.

Step 4 – Principal Deferment

If the Target Payment is not achieved, the Mortgagee must apply the remaining Partial Claim funds, if any, as a principal deferment, to achieve the Target Payment with the modified Mortgage.

Step 5 – Target Payment Not Achieved

If the Mortgagee cannot achieve the Target Payment using the above steps, then the Mortgagee must offer the Borrower the lowest monthly P&I payment achieved under the COVID-19 Recovery Modification. If the Borrower affirms that they can make the offered payment, then the Mortgagee must complete that option.

(d) Terms

The Mortgagee must ensure that:

- the modified Mortgage is a fixed rate Mortgage;
- the interest rate of the modified Mortgage is no greater than the most recent PMMS Rate for 30-year fixed rate conforming Mortgages (U.S. average), rounded to the nearest one-eighth of 1 percent (0.125 percent) as of the

date the Borrower is offered the COVID-19 Recovery Modification;

- the Partial Claim, as part of a COVID-19 Recovery Modification, does not exceed 25 percent of the unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim less any previous Partial Claims paid;
- the COVID-19 Recovery Modification fully reinstates the Mortgage including all arrearages; and
- the FHA-insured modified Mortgage remains in first lien position and is legally enforceable.

HUD does not provide model documents for the COVID-19 Recovery Modification.

(e) Document Delivery Requirements

The Mortgagee must submit all required documentation for COVID-19 Partial Claims as listed under [FHA-HAMP Loan Documents](#) (III.A.2.k.v(H)), except no TPP is required.

The Mortgagee is automatically granted a 90-Day extension to the six-month deadline for the recorded Mortgage.

If a Mortgagee experiences additional delays out of their control, including past the automatic 90-Day extension for the recorded Mortgage, that impact delivery of the Partial Claim documents, Mortgagees may file requests for an additional extension in accordance with [Requests for Extensions of Time for Delivery of Partial Claim Documents](#) (III.A.2.k.v(H)(7)).

(f) Required Documentation

(i) Servicing/Claim Review File

The Mortgagee must retain the following in the Servicing File and the Claim Review File:

- a copy of the executed Partial Claim promissory Note, if applicable, and subordinate Mortgage;
- evidence that the Mortgage was timely submitted for recording; and
- the date the Mortgagee received the executed Partial Claim documents from the Borrower and the date the subordinate Mortgage was sent to be recorded.

(ii) Reporting to HUD

The Mortgagee must report the use of the COVID-19 Recovery Modification in SFDMS as follows:

- Default Status Code 61 – Recovery Modification Started with a Partial Claim, or
- Default Status Code 38 – Recovery Modification Started without a Partial Claim.

The Mortgagee must report the characteristics of all COVID-19 Recovery Modifications, including the rate and term, in FHAC within 90 Days of the executed COVID-19 Recovery Modification.

(3) COVID-19 Recovery Non-Occupant Loan Modification

The Mortgagee must review Non-Occupant Borrowers for a COVID-19 Recovery Non-Occupant Loan Modification.

(a) Definition

The COVID-19 Recovery Non-Occupant Loan Modification is a rate and term loan modification.

(b) Eligibility

The Mortgagee must ensure that:

- the Borrower indicates they have the ability to make the modified Mortgage Payments; and
- the Property is not owner-occupied. The Property can be used as a Rental Property, Secondary Residence, or Vacation Home for the Borrower.

(c) Terms

The Mortgagee must modify the Mortgage as follows:

- The Mortgagee must ensure that all Late Charges, fees, and penalties are waived except that Mortgagees are not required to waive Late Charges, fees, and penalties, if any, accumulated prior to March 1, 2020.
- The Mortgagee must only capitalize into a COVID-19 Recovery Non-Occupant Loan Modification:
 - arrearages for unpaid accrued interest;
 - Mortgagee advances for escrowed items;
 - an escrow shortage that falls below the target balance, calculated during an escrow analysis, that

exceeds the amount of the Mortgagee's advances already capitalized in the modified Mortgage; and

- related legal fees and foreclosure and bankruptcy costs not higher than the foreclosure-related fees and costs HUD has identified as customary and reasonable.

- The Mortgagee must ensure that the COVID-19 Recovery Non-Occupant Loan Modification fully reinstates the Mortgage.
- The Mortgagee must ensure that the modified Mortgage is a fixed rate Mortgage.
- The Mortgagee must ensure the interest rate of the modified Mortgage is no greater than the most recent PMMS Rate for 30-year fixed rate conforming Mortgages (U.S. average), rounded to the nearest one-eighth of 1 percent (0.125 percent), as of the date the Borrower is offered a permanent COVID-19 Recovery Non-Occupant Loan Modification.
- The Mortgagee must ensure that the term for the modified Mortgage is 360 months.
 - The term may be less than 360 months if requested by the Borrower.
- The Borrower's total monthly Mortgage Payment may increase.
- HUD does not provide a model for COVID-19 Recovery Non-Occupant Loan Modification documents, but the Mortgagee must ensure the FHA-insured Mortgage remains in first lien position and is legally enforceable.
- Mortgagees may include an additional month in the total outstanding debt to be resolved.

If Borrowers re-default due to COVID-19, they may receive more than one COVID-19 Recovery Non-Occupant Loan Modification.

(d) Required Documentation

(i) Servicing File

The Mortgagee must retain the following in the Servicing File:

- a copy of the rental agreement for each rental unit, if applicable;
- a written statement from the Borrower stating:
 - that they are the landlord of the Property and their renter is impacted, directly or indirectly, by

the COVID-19 pandemic and is either unable to make rent payments or has vacated the Property;
or

- that the Property is used as a Secondary Residence or a Vacation Home for the Borrower;
and

- evidence that the Mortgage was timely submitted for recording.

(ii) Reporting to HUD

The Mortgagee must report the use of a COVID-19 Recovery Non-Occupant Loan Modification in SFDMS.

The Mortgagee must report the characteristics of COVID-19 Recovery Non-Occupant Loan Modifications, including the rate and term, in FHAC within 90 Days of the executed COVID-19 Recovery Modification.

(D) COVID-19 Home Disposition Options

Mortgagees must review Borrowers that do not qualify for the COVID-19 Recovery Home Retention Options for the COVID-19 Home Disposition Options. The COVID-19 Home Disposition Options are available to Owner-Occupant and Non-Occupant Borrowers.

(1) COVID-19 Pre-Foreclosure Sale

(a) Definition

A COVID-19 Pre-Foreclosure Sale (COVID-19 PFS), also known as a Short Sale, refers to the sale of real estate that generates proceeds that are less than the amount owed on the Property and through which the lien holders agree to release their liens and forgive the deficiency balance on the real estate. A COVID-19 PFS is available to Borrowers who are experiencing a hardship affecting their ability to sustain the Mortgage due to COVID-19.

(b) Eligibility

The Mortgagee must ensure that:

- the Borrower indicates a financial hardship due to COVID-19 affecting their ability to sustain the Mortgage;
- the Borrower does not qualify for any COVID-19 Recovery Home Retention Option; and
- the Property is not condemned.

(c) Standard

The Mortgagee must ensure the Borrower and FHA-insured Mortgage meet the following **criteria**.

The Mortgagee must ensure the COVID-19 PFS meets all PFS program requirements outlined in [Pre-Foreclosure Sales \(III.A.2.1.ii\)](#), **except for [PFS Options \(III.A.2.1.ii\(C\)\)](#)**.

Mortgagee [PFS Incentive \(III.A.2.1.ii\(Q\)\)](#) does not apply to COVID-19 PFS.

If the Borrower advises that their financial situation has improved during the COVID-19 PFS process and wants to retain their home, the Mortgagee must review the Borrower for the COVID-19 Recovery Home Retention Options.

The Mortgagee may consider the COVID-19 PFS for Borrowers that are in Default or are current but facing Imminent Default due to a hardship affecting their ability to sustain their Mortgage. On the date the PFS closing occurs, the Mortgagee must ensure that the Mortgage is in Default status (minimum 31 Days Delinquent).

(d) Reporting to HUD

The Mortgagee must report the use of a COVID-19 PFS in SFDMS.

(2) COVID-19 Deed-in-Lieu of Foreclosure

(a) Definition

A COVID-19 Deed-in-Lieu (DIL) of Foreclosure (COVID-19 DIL) is a COVID-19 Home Disposition Option in which a Borrower voluntarily offers the deed to HUD in exchange for a release from all obligations under the Mortgage.

(b) Eligibility

The Mortgagee must ensure that the Borrower and the FHA-insured Mortgage:

- meet the requirements for COVID-19 PFS transactions;
- was unable to complete a COVID-19 PFS transaction by the expiration of the PFS marketing period; and
- meet all DIL eligibility requirements except:

- the Borrower Eligibility [Streamlined DIL Standards](#) (III.A.2.1.iii(C)(2)(a-b)), which are not required for the COVID-19 DIL; and
- Mortgagees are not required to submit a request for National Servicing Center (NSC) approval via Extensions and Variances Automated Requests System (EVARS) for approval to offer a COVID-19 DIL Option to a Borrower who owns more than one FHA-insured Property as outlined in [DIL Exceptions for Borrowers with More than One FHA-Insured Mortgage](#) (III.A.2.1.iii(C)(2)(d)).

(c) Standard

The Mortgagee must ensure the COVID-19 DIL meets all DIL program requirements outlined in [Deed-in-Lieu of Foreclosure](#) (III.A.2.1.iii), with the following exceptions:

- Mortgagee [DIL Incentive](#) (III.A.2.1.iii(G)) does not apply to COVID-19 DIL.
- Extensions for [DIL Foreclosure Time Frames](#) (III.A.2.1.iii(H)): if the DIL follows a failed COVID-19 PFS, it must be completed or foreclosure must be initiated within 90 Days of the termination or expiration of the PFS ATP Agreement (form HUD-90045).

(d) Reporting to HUD

The Mortgagee must report the use of a COVID-19 DIL in SFDMS.

iv. Single Family Default Reporting Requirements for Borrowers Affected by the COVID-19 National Emergency in Loss Mitigation

Mortgagees must report the Delinquency/Default Reason (DDR) and Delinquency/Default Status (DDS) Codes that apply to the Borrower at the end of each reporting cycle and must update the code as the Borrower's circumstances change.

Mortgagees are not paid an incentive for the COVID-19 Loss Mitigation Options or COVID-19 Recovery Options.

(A) Default Reason Code Reporting

Mortgagees must use Default Reason Code 055 – Related to National Emergency Declaration to report that the delinquency is a result of impacts of the COVID-19 pandemic. Default Reason Code 055 must be reported for all Borrowers utilizing the COVID-19 Loss Mitigation Options or COVID-19 Recovery Options, regardless of prior

delinquency status and participation on a COVID-19 Forbearance or other forbearance related to the COVID-19 pandemic.

(B) Default Status Code Reporting

Mortgagees must report the Default Status Codes detailed below for all FHA-insured Mortgages utilizing the COVID-19 Loss Mitigation Options or COVID-19 Recovery Options.

If the Mortgage is newly defaulted, Mortgagees must report Status Code 42 – Delinquent prior to reporting any other Status Codes.

(C) COVID-19 Reporting

Mortgagees should report the correct Status Code as follows:

- Status Code 06 – Formal Forbearance Plan for the COVID-19 Forbearance
- Status Code 10 – Partial Claim Started for the COVID-19 Standalone Partial Claim or the COVID-19 Recovery Standalone Partial Claim
- Status Code 28 – Modification Started with an Occupancy Status Code 1 (Occupied by Borrower) for the COVID-19 Owner-Occupant Loan Modification
- Status Code 3A – Advance Modification Started
- Status Code 53 – Combination Partial Claim/Modification Started (Non-FHA-HAMP) for the COVID-19 Combination Partial Claim and Loan Modification
- Status Code 61 – Recovery Modification Started with a Partial Claim
- Status Code 38 – Recovery Modification Started without a Partial Claim or for the COVID-19 Recovery Non-Occupant Loan Modification
- Status Code 78 – Borrower Program Assistance Received if Homeowner Assistance Funds are used in connection with reinstating the Mortgage
- Status Code 28 – Modification Started with the applicable Occupancy Status Code that indicates the type of non-borrower occupancy for the COVID-19 Non-Occupant Loan Modification
- Status Code 15 – Pre-foreclosure Acceptance Plan Available for the COVID-19 PFS
- Status Code 44 – Deed-in-Lieu Started for the COVID-19 DIL
- Status Code AH – Streamlined Financials Received and In Review should be reported prior to Status Codes 15 and 44, as appropriate

For Borrowers utilizing HAF funds in connection with reinstating the Mortgage, the Mortgagee must report both Status Code 78 and then Status Code 61 or Status Code 38 to indicate use of HAF funds in conjunction with a COVID-19 Recovery Modification. If a Mortgagee cannot report both codes for the reporting cycle, Status Code 78 must be reported.

No TPP is required for the COVID-19 Loss Mitigation Options or the COVID-19 Recovery Options. Therefore, Mortgagees are not required to report Status Code 08 – Trial Payment Plan prior to reporting Status Codes 3A, 10, 28, 53, 61, or 38.

v. Extension of First Legal Deadline Date

Deadlines for the first legal action and Reasonable Diligence Time Frame are extended to 180 Days from the date of expiration of the foreclosure and eviction moratorium for FHA-insured Single Family Mortgages, except for FHA-insured Mortgages secured by vacant or abandoned Properties.

vi. Terms of the Mortgage are Unaffected

Nothing in this section confers any right to a Borrower to any loss mitigation or any other action by HUD or the Mortgagee. Further, nothing in this section interferes with any right of the Mortgagee to enforce its private contractual rights under the terms of the Mortgage. All private contractual rights and obligations remain unaffected by anything in this section. Where a Mortgagee chooses to enforce its contractual rights after expiration of the COVID-19 Forbearance, the standard time frames to initiate foreclosure and reasonable diligence in prosecuting foreclosure following expiration of a foreclosure moratorium will apply, except as set forth in this ML.

vii. Exclusion of COVID-19 from FHA’s Presidentially-Declared Major Disaster Areas (PMDMA)

For Borrowers impacted by the COVID-19 National Emergency and whose mortgaged Property is located in a COVID-19 PDMDA, the policy in this section applies in lieu of FHA’s PDMDA guidance listed in [Presidentially-Declared Major Disaster Areas](#) (III.A.2.n), for the purposes of this National Emergency only.

viii. Borrowers Impacted by COVID-19 and a PDMDA

For Borrowers impacted by a PDMDA during the COVID-19 pandemic:

- For Borrowers who are already on a COVID-19 Loss Mitigation Option or a COVID-19 Recovery Option, including a COVID-19 Forbearance, before the date of a new PDMDA Disaster

Declaration, the Mortgagee must continue to follow the COVID-19 Loss Mitigation Option or COVID-19 Recovery Option guidance.

- For all other Borrowers, the Mortgagee must evaluate the Borrower for all loss mitigation options available to them, including any PDMDA, COVID-19 Loss Mitigation, or COVID-19 Recovery Options, based on their reason for hardship.

For any buildings in a PDMDA that are Substantially Damaged, Mortgagees must follow the PDMDA guidance in [Monitoring of Repairs to Substantially Damaged Homes](#) (III.A.2.n.iii). This requirement applies to all Properties covered by a non-COVID-19 PDMDA during the COVID-19 pandemic, including those already under a COVID-19 Loss Mitigation Option or COVID-19 Recovery Option, such as COVID-19 Forbearance.

**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 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0595; 2502-0600; and 2502-0610. 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-CALL-FHA. 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

Lopa P. Kolluri
Principal Deputy Assistant Secretary
Office of Housing – Federal Housing Administration