



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: April 18, 2022

Mortgagee Letter 2022-07

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 Update to the COVID-19 Recovery Loss Mitigation Options

Purpose The purpose of this Mortgagee Letter (ML) is to establish a 40-year loan modification as part of the COVID-19 Recovery Loss Mitigation Options (COVID-19 Recovery Options).

Effective Date The provisions of this ML may be implemented immediately but must be implemented no later than 90 calendar days from the date of publication of this ML.

This does not impact previously announced effective dates for the COVID-19 Recovery Options in ML 2021-18.

All updates will be incorporated into a forthcoming update of HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (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

The provisions of this ML apply to all FHA Title II Single Family forward mortgage programs.

This ML updates FHA's COVID-19 Loss Mitigation policies for Borrowers of FHA-insured forward Mortgages impacted by COVID-19 in ML 2021-18 and section III.A.2.o, Presidentially-Declared COVID-19 National Emergency, in Handbook 4000.1.

Background

On July 23, 2021, FHA established the COVID-19 Recovery Options to target a 25 percent reduction to the Principal and Interest (P&I) portion of the Borrower's monthly mortgage payment for Borrowers who cannot resume their existing payment. While the COVID-19 Recovery Options will provide many Borrowers access to a loss mitigation option that assists them in retaining their homes, FHA anticipates certain Borrowers may need additional relief beyond its current COVID-19 Recovery Options. The ability to extend the term of the loan modification offers Mortgagees a path to provide additional payment relief to those Borrowers. Further, FHA notes that other government agencies as well as Fannie Mae and Freddie Mac currently provide a 40-year loan modification term. FHA is adding a combination 40-year loan modification and Partial Claim to the COVID-19 Recovery Modification to provide FHA Borrowers with the same options available to those with conventional and other mortgage types, which will further reduce defaults and foreclosures, thereby mitigating risk to the Mutual Mortgage Insurance Fund (MMIF).

Additionally, in accordance with standard FHA practice, this ML provides an exemption for those FHA-insured Mortgages that are backed by mortgage revenue bonds to ensure those Mortgagees that rely on those bonds, primarily state Housing Finance Agencies, are not out of compliance with the terms of their bond agreements and the related Internal Revenue Service code.

FHA encourages Mortgagees and Borrowers alike to utilize the extensive network of HUD-approved Housing Counselors to help explain and expedite this additional relief. FHA reminds Mortgagees that they must comply with Ginnie Mae's mortgage-backed securities requirements, including the requirement that loans must be 90 or more Days Delinquent before they can be bought out of a Ginnie Mae pool.

Summary of Changes

This ML updates the COVID-19 Recovery Options in section III.A.2.o.iii(C), COVID-19 Recovery Home Retention Options, by:

- adding a 40-year loan modification to the COVID-19 Recovery Home Retention Options; and
- providing an exemption for Mortgages backed by mortgage revenue bonds.

Single Family Housing Policy Handbook 4000.1

The policy changes will be incorporated into Handbook 4000.1 as follows:

COVID-19 Recovery Home Retention Options (III.A.2.o.iii(C))

(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, or a 480-month Loan Modification, which must include a Partial Claim. 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 minimum 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.

Exemption from COVID-19 Recovery Modification

Mortgagees that service Mortgages funded in connection with mortgage revenue bonds that are restricted by the Internal Revenue Code are exempt from the COVID-19 Recovery Modification if they cannot

extend the term of a Mortgage beyond the original 30 years or the interest rate cannot be modified.

(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 refer 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 due date of** 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 30-Year 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 for 30-Year Modification

If the target payment is not achieved in Step 3, the Mortgagee must apply available Partial Claim funds as a principal deferment up to the amount needed to achieve the target payment with the modified 30-year Mortgage.

If the target payment is achieved, the Mortgagee must provide that option to the Borrower without proceeding to Step 5.

Step 5 – Modify the Rate and Term of the 40-Year Mortgage

If the Mortgagee cannot achieve the target payment at Step 4 and the Borrower has available Partial Claim funds, the Mortgagee must modify the Mortgage to a 40-year (480-month) Loan Modification and provide a Partial Claim. A 40-year Loan Modification is not available without a Partial Claim.

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

The Mortgagee must extend the term to 480 months to achieve the target payment and calculate the modified Mortgage Payment.

The Mortgagee may extend the term to less than 480 months if

- requested by the Borrower; and

- the modified Mortgage at the lesser term achieves the target payment.

The interest rate of the modified Mortgage must be no more than 50 bps 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. The Mortgagee must round the modification interest rate to the nearest one-eighth of 1 percent (0.125 percent) before adding no more than 50 bps to the interest rate.

Step 6 – Principal Deferment for 40-Year Modification

If the target payment is not achieved in Step 5, the Mortgagee must apply available Partial Claim funds as a principal deferment to achieve the target payment with the modified 40-year Mortgage.

Step 7 – 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 does not exceed the applicable limit set forth in Steps 3 or 5;
- 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.

**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

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