



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: February 13, 2023

Mortgagee Letter 2023-03

To: All FHA-Approved Mortgagees
All FHA-Approved Title I Lenders
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 CORRECTED AND REPUBLISHED: Expansion of the COVID-19
Recovery Loss Mitigation Options

Purpose This Mortgagee Letter (ML) amends and restates Mortgagee Letter 2023-02 by making three technical corrections or clarifications, and otherwise restates ML 2023-02 as originally published. This ML is being issued to address necessary technical corrections and clarifications only and supersedes and replaces ML 2023-02 in its entirety.

Through this ML, HUD extends the COVID-19 Recovery Loss Mitigation Options (COVID-19 Recovery Options) and expands the options to include additional eligible Borrowers, increase the COVID-19 Recovery Partial Claims, and add incentive payments to Mortgagees.

Effective Date The provisions of this ML may be implemented **as of January 30th**, but must be implemented no later than April 30, 2023, where the Mortgagee has not sent documents to the Borrower to complete any Home Retention Option.

The COVID-19 Recovery Options may be offered through, but no later than, October 30, 2024, and completed no later than February 27, 2025. FHA is working to update and streamline its standard Loss Mitigation

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Options. FHA will provide Mortgagees with advance notice, through ML, of any early termination of the provisions of this ML.

Claims for COVID-19 Loss Mitigation Option incentives, including Partial Claims eligible for incentive payment, may be filed on or after March 1, 2023.

For reporting in SFDMS, the new COVID-19 Recovery Partial Claim Default Status Code 50 may be used starting March 18, 2023, but must be used no later than April 2, 2023.

All updates will be incorporated into a forthcoming update of the 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.

Background HUD continues to review the COVID-19 Recovery Options and how Mortgagees can best use them to assist Borrowers in Default while protecting the Mutual Mortgage Insurance Fund (MMIF). The current COVID-19 Recovery Options have proven to be very successful in helping Borrowers bring their Mortgages current and providing significant monthly mortgage payment reduction. Since the start of the COVID-19 pandemic, Mortgagees have provided over 1.3 million COVID-19 Recovery Options to Borrowers.

HUD has determined that, due to the success of the COVID-19 Recovery Options and the number of Borrowers who need loss mitigation, the options should be temporarily extended to allow as many eligible Borrowers as possible should be evaluated for these options. This will reduce costs to HUD and its stakeholders as well as reduce the complexity of HUD's loss mitigation program and ensure that Mortgagees can streamline and strengthen their delivery of Loss Mitigation Options. Further, allowing Mortgagees to provide a full array of Loss Mitigation Options to Non-Occupant Borrowers could help prevent additional foreclosures and resulting displacement of renters in a difficult rental market. While the

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COVID-19 Recovery Options continue to allow Mortgagees to deliver assistance to Borrowers and prevent foreclosure, rising interest rates are impeding the effectiveness of a COVID-19 Recovery Modification and therefore, expanding the COVID-19 Recovery Standalone Partial Claim to its full statutory maximum is needed to reduce payments and, in more and more cases, avoid payment increase.

HUD considers it prudent to expand the COVID-19 Recovery Options for Mortgagees to use for all Borrowers in Default or Imminent Default, including Non-Occupant Borrowers, regardless of their reason for Default. For Non-Occupant Borrowers, this ML establishes their ability to receive the same COVID-19 Recovery Options as Owner-Occupant Borrowers. This ML also increases the allowable COVID-19 Partial Claim amount to 30 percent of the Borrower's unpaid principal balance as of the date of Default of the first Partial Claim and establishes a new Single Family Default Monitoring System (SFDMS) reporting code for all COVID-19 Recovery Partial Claims.

HUD has considered the additional workload from expanding the COVID-19 Recovery Options to all Borrowers; therefore, this ML introduces incentives to Mortgagees for completing these Loss Mitigation Options.

This ML amends and supersedes ML 2023-02, to make technical corrections or clarifications in three areas, fully described below in the Summary of Changes. As HUD promptly identified these errors, this ML, superseding and replacing ML 2023-02, will provide clarity for Mortgagees and other program participants.

Summary of Changes

This ML:

- temporarily suspends the use of the Federal Housing Administration Home Affordable Modification Program (FHA-HAMP) in:
 - HUD's Loss Mitigation Program – Definitions (III.A.2.j.i); and
 - FHA-HAMP – Eligibility (III.A.2.k.v(B));
- updates Loss Mitigation for Borrowers in PDMDAs (III.A.2.n.iv);
- updates COVID-19 Advance Loan Modification – Definition (III.A.2.o.ii(A));
- updates COVID-19 Recovery Loss Mitigation Options (III.A.2.o.iii);
- updates COVID-19 Recovery Standalone Partial Claim (III.A.2.o.iii(C)(1));
- expands COVID-19 Recovery Modification (III.A.2.o.iii(C)(2));
- deletes COVID-19 Recovery Non-Occupant Loan Modification (III.A.2.o.iii(C)(3));
- updates COVID-19 Pre-Foreclosure Sale – Standard (III.A.2.o.iii(D)(1)(c));

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- updates COVID-19 Deed-in-Lieu of Foreclosure – Standard (III.A.2.o.iii(D)(2)(c));
- updates Single Family Default Reporting Requirements for Borrowers Affected by the COVID-19 National Emergency in Loss Mitigation (III.A.2.o.iv);
- updates Claim Type 33 – National Emergency Standalone Partial Claim (IV.A.2.j);
- adds Claim Type 32 – COVID-19 Recovery Modification or COVID-19 Advance Loan Modification (IV.A.2.k); and
- supersedes and replaces ML 2023-02 to:
 - make technical corrections in the Effective Date section regarding claim filing;
 - replace the bracketed language with the applicable date in the Additional Evaluation for COVID-19 Recovery Options Handbook 4000.1, Section III.A.2.o.iii(B)(3); and
 - add language to COVID-19 Recovery Modification, Target Payment Not Achieved, Handbook 4000.1, Section III.A.2.o.iii(C)(2)(c), Step 7, to clarify the offer of a COVID-19 Recovery Standalone Partial Claim is subject to its availability.

FHA Single Family Housing Policy Handbook 4000.1

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

HUD’s Loss Mitigation Program (III.A.2.j)

i. Definitions

Servicing and Loss Mitigation

HUD’s Loss Mitigation Options are intended to minimize economic impact to the MMIF and to avoid foreclosure, when possible. The Loss Mitigation Options are:

- Informal or Formal Forbearance
- Special Forbearance (SFB)-Unemployment
- FHA-Home Affordable Modification Program (FHA-HAMP) Loan Modification, FHA-HAMP Standalone Partial Claim, and FHA-HAMP Combination Loan Modification/Partial Claim
 - All FHA-HAMP Options are temporarily suspended and must not be offered through October 30, 2024. Mortgagees must evaluate all Borrowers for the [COVID-19 Recovery Home Retention Options](#).
- Pre-Foreclosure Sale (PFS)
 - Standard PFS is temporarily suspended and must not be offered through October 30, 2024. Mortgagees must evaluate all eligible Borrowers for the [COVID-19 PFS](#) (III.A.2.o.iii(D)(1)).

- Deed-in-Lieu (DIL) of Foreclosure
 - Standard DIL is temporarily suspended and must not be offered through October 30, 2024. Mortgagees must evaluate all eligible Borrowers for the [COVID-19 DIL \(III.A.2.o.iii\(D\)\(2\)\)](#).

For Borrowers affected by a non-COVID-19 Presidentially-Declared Major Disaster Area (PDMDA) or a COVID-19 PDMDA and National Emergency, the Mortgagee must comply with the Loss Mitigation requirements in [Loss Mitigation for Borrowers in PDMDAs \(III.A.2.n.iv\(A\)\)](#).

FHA-HAMP (Temporarily Suspended) (III.A.2.k.v)

(B) Eligibility

All FHA-HAMP Options are temporarily suspended and must not be offered through October 30, 2024. Mortgagees must evaluate all Borrowers for the [COVID-19 Recovery Home Retention Options](#).

Loss Mitigation for Borrowers in PDMDAs (III.A.2.n.iv)

(A) Borrowers Impacted by a PDMDA during COVID-19

For Borrowers impacted by a PDMDA through October 30, 2024 :

- For Borrowers who are currently being evaluated for a COVID-19 Loss Mitigation Option or are on a COVID-19 Forbearance, before the date of a new PDMDA disaster declaration, the Mortgagee must continue to follow the COVID-19 Loss Mitigation guidance.
- For all other Borrowers, the Mortgagee must evaluate the Borrower for [Forbearance Options for Borrowers in PDMDAs \(III.A.2.n.iv\(C\)\)](#) and then evaluate the Borrower for the [COVID-19 Recovery Home Retention Options \(III.A.2.o.iii\(C\)\)](#), regardless of the reported reason for default.

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, such as COVID-19 Forbearance.

Presidentially-Declared COVID-19 National Emergency (III.A.2.o)

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 [Text was deleted in this section.]

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.

(B) Eligibility

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

The Borrower must be 90 or more Days Delinquent.

A 30-year Loan Modification 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 **October 30, 2024**.

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;

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- 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.

COVID-19 Recovery Loss Mitigation Options (III.A.2.o.iii)

(A) Definition [Text was deleted in this section.]

The COVID-19 Recovery Loss Mitigation Options (COVID-19 Recovery Options) provide Borrowers 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.

(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 Are Not on a COVID-19 Forbearance

The Mortgagee must review all Borrowers that are in Default or facing Imminent Default, as defined in sections III.A.2.g(i-iii) only for the COVID-19 Recovery Options, regardless of the reason for Default and whether or not the Borrower previously participated in a COVID-19 Forbearance, through October 30, 2024. The Mortgagee must not offer the Borrower a permanent FHA-HAMP Loss Mitigation Option during this period.

The Borrower must be 90 or more Days Delinquent at the time the permanent loss mitigation documents are executed.

For Borrowers in Imminent Default:

- the Mortgagee must ensure the Borrower meets the requirements for Imminent Default as defined in sections III.A.2.g.(i-iii) only; or
- The Mortgagee may consider that a Borrower has met the requirements for Imminent Default if the Borrower:
 - previously qualified for or used HAF funds to reinstate their Mortgage; and
 - attests that they cannot resume their monthly Mortgage Payments.

The Mortgagee may offer the Borrower an Informal or Formal Forbearance (III.A.2.k.iii) prior to reviewing the Borrower for a COVID-19 Recovery Home Retention Option.

If the Borrower's financial hardship is due to unemployment regardless of occupancy status, the Mortgagee must offer the SFB-Unemployment to eligible Borrowers prior to reviewing the Borrower for a COVID-19 Recovery Home Retention Option. The Mortgagee must ensure all requirements for a Special Forbearance–Unemployment (III.A.2.k.iv) are met except for the occupancy requirement and the Defaulted Mortgage Status (III.A.2.k.iv(B)(1)). The Mortgagee must consider eligible Non-Occupant Borrowers for the SFB-Unemployment.

The Mortgagee must comply with the following amended Special Forbearance–Unemployment Default Mortgage Status requirements:

- The Mortgagee must meet the following conditions at the time the Mortgagee approves the SFB-Unemployment Option:
 - be no more than 12 months due and unpaid; and

- not be in foreclosure, or foreclosure action has been suspended or canceled.

The Mortgagee must adhere to the requirements under [Early Default Intervention](#) (III.A.2.h) except [Face-to-Face Interviews](#) (III.A.2.h.xii).

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) Additional Evaluation for COVID-19 Recovery Options

For Borrowers who are 90 or more Days Delinquent as of January 30, 2023, and not presently on a COVID-19 Forbearance, including Borrowers in foreclosure where the foreclosure sale has not been scheduled, the Mortgagee must:

- send written notification to the Borrower, unless otherwise prohibited by law, stating that additional loss mitigation options have become available which may assist them in retaining their home. This language can be added to existing letters sent by the Mortgagee; and
- retain documentation of the written notification to the Borrower in their Servicing File.

Mortgagees must re-review a Borrower for the COVID-19 Recovery Options upon Borrower request.

(4) Borrowers in Foreclosure

If a Borrower in foreclosure requests review for the COVID-19 Recovery Options:

- when the scheduled foreclosure sale is more than 37 Days from the date of the Borrower's request, the Mortgagee must review the Borrower for a COVID-19 Recovery Option;
- when the Borrower's request is received 37 Days or fewer prior to the scheduled foreclosure sale date, the Mortgagee must use its best efforts to review the Borrower for a COVID-19 Recovery Option; or
- when the Mortgagee receives an executed loss mitigation agreement from the Borrower, the Mortgagee must terminate the foreclosure process.

(5) 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.

(6) Incentives for COVID-19 Recovery Options

The Mortgagee may submit a claim for an incentive for the successful completion of a COVID-19 Recovery Option, where the date the Borrower executed the loss mitigation agreement is on or after January 26, 2023. The Mortgagee may only file a claim for incentives if the correct and complete claim is submitted to HUD within 60 days of the execution date of the COVID-19 Recovery Option.

Loss Mitigation Option	Compensation
COVID-19 ALM	\$750, plus up to \$250 for reimbursement of title search, endorsement to the title policy, and/or recording fees actually incurred
COVID-19 Recovery Standalone Partial Claim	\$500
COVID-19 Recovery Modification	\$750, plus up to \$250 for reimbursement of title search, endorsement to the title policy, and/or recording fees actually incurred
COVID-19 PFS	\$1,000
COVID-19 DIL	\$250

(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, except for Borrowers in Imminent Default. Where a TPP is required, the Mortgagee must meet all requirements in [FHA-HAMP Trial Payment Plans](#) (III.A.2.k.v(G)), except:

- [Trial Payment Plan Terms](#) (III.A.2.k.v(G)(3)(b)(i));
- [Trial Payment Plan Failure](#) (III.A.2.k.v(G)(6)(b)) first bullet; and
- [Reporting of Trial Payment Plans](#) (III.A.2.k.v(G)(9)).

The Mortgagee must comply with the following amended TPP terms:

- The TPP interest rate must meet the requirements for a COVID-19 Recovery Modification.
- The permanent COVID-19 Recovery Modification interest rate is established when the TPP is offered to the Borrower.
- The established monthly payment under a COVID-19 Recovery Modification must be the same or less than the established monthly trial payment.
- The agreement document stipulates that, after successfully completing the TPP, the Borrower must continue making payments in accordance with the terms of the TPP Agreement until the permanent COVID-19 Recovery Option has been ratified by all parties.
- The agreement documents stipulate the causes of TPP failure. The Borrower has failed the TPP when the Borrower does not make a scheduled TPP payment by the last Day of the month the payment was due.

Mortgagees must report Status Code 08 for a TPP for a COVID-19 Recovery Option.

(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 Borrowers impacted by COVID-19 for a COVID-19 Recovery Standalone Partial Claim.

(a) Eligibility [Text was deleted in this section.]

The Mortgagee must ensure that the Borrower indicates they have the ability to resume making on-time Mortgage Payments.

(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 may only include amounts needed to bring the Borrower current including:
 - arrearages;
 - Mortgagee advances for escrow items;
 - projected escrow shortage amount; and

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- 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
- the COVID-19 Recovery Standalone Partial Claim must not exceed 30 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 30 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.

Mortgagees 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 COVID-19 Recovery 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 [Text was deleted in this section.]

The Mortgagee must ensure that the Borrower indicates they have the ability to make the modified Monthly Payment.

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 COVID-19 Recovery Partial Claim Availability

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

For a Partial Claim as part of a COVID-19 Recovery Modification, the COVID-19 Recovery Partial Claim must not exceed 30 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 30 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 COVID-19 Recovery 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 COVID-19 Recovery Partial Claim, if Partial Claim funds are available.

The Mortgagee must first apply available Partial Claim funds toward the arrearages. If the COVID-19 Recovery 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 COVID-19 Recovery 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 or, if the P&I monthly payment increases under the COVID-19 Recovery Modification and the COVID-19 Standalone Partial Claim is available, the COVID-19 Standalone Partial Claim. 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 COVID-19 Recovery Partial Claim, as part of a COVID-19 Recovery Modification, does not exceed 30 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 Recovery 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.

COVID-19 Pre-Foreclosure Sale (III.A.2.o.iii(D)(1))

(c) Standard [Text was deleted in this section.]

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)).

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).

COVID-19 Deed-in-Lieu of Foreclosure (III.A.2.o.iii(D)(2))

(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), except 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).

Presidentially-Declared COVID-19 National Emergency (III.A.2.o)

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.

(A) Default Reason Code Reporting

Mortgagees must use Default Reason Code 055 – Related to National Emergency Declaration to report if the delinquency is a result of impacts of the COVID-19 pandemic. For all other reasons for Default, Mortgagees must report the appropriate Default Reason Code when utilizing a COVID-19 Recovery Option.

(B) Default Status Code Reporting

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

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

Mortgagees must utilize new Default Status Code 50 for all Mortgages that utilize a COVID-19 Recovery Partial Claim, regardless of the reason for Default. If the Default Reason Code is 055 – Related to National Emergency, Mortgagees may continue to report DDS Code 10 – Partial Claim Started until they can begin reporting Default Status Code 50, but they must utilize Default Status Code 50 no later than April 3, 2023.

(C) COVID-19 Reporting

Mortgagees should report the correct Status Code with the applicable Occupancy Status Code as follows:

- Status Code 08 – Trial Payment Plan
- Status Code 06 – Formal Forbearance Plan for the COVID-19 Forbearance
- Status Code 12 – Repayment/Informal Forbearance Plan
- Status Code 3A – Advance Modification Started
- Status Code 50 – COVID-19 Recovery Standalone Partial Claim Started
- Status Code 61 – Recovery Modification Started with a Partial Claim
- Status Code 38 – Recovery Modification Started without a Partial Claim
- Status Code 78 – Borrower Program Assistance Received if Homeowner Assistance Funds are used in connection with reinstating the Mortgage
- 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 must be reported prior to Status Codes 15 and 44 as appropriate to identify the use of the COVID-19 PFS or COVID-19 DIL

Mortgagees must no longer use the following Status Codes to report COVID-19 Recovery Options utilized:

- 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 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 53 – Combination Partial Claim/Modification Started (Non-FHA-HAMP) for the COVID-19 Combination Partial Claim and Loan Modification
- Status Code 38 – Recovery Modification Started without a Partial Claim or for the COVID-19 Recovery Non-Occupant Loan Modification

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.

Where no TPP is required, Mortgagees are not required to report Status Code 08 – Trial Payment Plan prior to reporting Status Codes 3A, 61, 38, or 50.

**FHA Single
Family Housing
Policy
Handbook
4000.1**

**Claims and
Disposition**

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

Claim Types (IV.A.2)

j. Claim Type 33 – National Emergency Standalone Partial Claim

The Mortgagee may file a claim for a National Emergency Partial Claim incentive and insurance benefits for a COVID-19 National Emergency Partial Claim or COVID-19 Recovery Partial Claim under Claim Type 33. The Mortgagee may include in its claim the accumulated arrearages, eligible unreimbursed Mortgagee advances, and related fees and costs as outlined in [Presidentially-Declared COVID-19 National Emergency](#) (III.A.2.o).

HUD will pay the Mortgagee a financial incentive for the use of a COVID-19 Recovery Partial Claim in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

The Mortgagee may file for an incentive fee only for the Loss Mitigation Option used to cure the Default. When the COVID-19 Recovery Partial Claim and COVID-19 Recovery Modification are used together, the Mortgagee must submit two separate claims for the incentives for these two options.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst within 60 Days of the execution date of the promissory Note and Mortgage or the incentive will be disallowed.

k. Claim Type 32 – COVID-19 Recovery Modification or COVID-19 Advance Loan Modification

The Mortgagee may file a claim for a COVID-19 Recovery Modification incentive or a COVID-19 Advance Loan Modification (COVID-19 ALM) incentive, including up to \$250 in title-related expenses, under Claim Type 32. HUD will pay the Mortgagee a financial incentive for the use of a COVID-19 Recovery Modification or a COVID-19 ALM in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

Mortgagee Letter 2023-03, Continued

The Mortgagee may only file for an incentive fee for the Loss Mitigation Option used to cure the Default. When the COVID-19 Recovery Partial Claim and COVID-19 Recovery Modification are used together, the Mortgagee must submit two separate claims for the incentives for these two options.

HUD must receive a correct and complete claim submission of Parts A and B via FHAC or FHA Catalyst within 60 Days of the execution date of the COVID-19 Recovery Modification or the COVID-19 ALM or the incentive claim will not be processed.

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 (PRA) 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 PRA, 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 ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-services>.

Signature

Julia R. Gordon
Assistant Secretary for Housing –
FHA Commissioner
