



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Posted on FHA's Office of Single Family
Drafting Table November 16, 2023

1 **Date:** XXXX, 2023

2 **Mortgagee Letter** 2023-XX

3 **To:** All FHA-Approved Mortgagees
4 All Direct Endorsement Underwriters
5 All Eligible Submission Sources for Condominium Project Approvals
6 All FHA Roster Appraisers
7 All FHA-Approved 203(k) Consultants
8 All HUD-Certified Housing Counselors
9 All HUD-Approved Nonprofit Organizations
10 All Governmental Entity Participants
11 All Real Estate Brokers
12 All Closing Agents

13 **Subject** Payment Supplement

14 **Purpose** This Mortgagee Letter (ML) establishes the Payment Supplement.

15 **Effective Date** The provisions of this ML may be implemented [TBD based on claim
16 system updates and availability], and must be implemented no later than
17 [MONTH DAY, YEAR (9 months from date of publication)].

18 All updates will be incorporated into a forthcoming update of the HUD
19 Handbook 4000.1, *FHA Single Family Housing Policy Handbook*
20 (Handbook 4000.1).

21 **Affected** The provisions of this ML apply to all FHA Title II Single Family forward
22 **Programs** mortgage programs.

Background

The current COVID-19 Recovery Options have proven to be very successful in helping delinquent Borrowers bring their Mortgages current and, for Borrowers who cannot afford to resume their previous Mortgage Payments, in providing significant payment reduction. Since the start of the COVID-19 pandemic, Mortgagees have provided over 1.3 million COVID-19 loss mitigation actions to Borrowers. On January 30, 2023, HUD extended and expanded its COVID-19 Loss Mitigation Options. While these options have been very effective, interest rates have risen, impacting the ability of Mortgagees to meaningfully assist Borrowers who cannot afford to resume their regular monthly payments. In light of these conditions, HUD has evaluated additional options for Mortgagees to further assist Borrowers and reduce losses to HUD's Mutual Mortgage Insurance (MMI) Fund.

To that end, this ML establishes a new loss mitigation option, the Payment Supplement, which will combine a standalone Partial Claim to bring the Mortgage current with a new Monthly Principal Reduction (MoPR), which will temporarily provide a monthly payment towards the principal portion of a Borrower's monthly Mortgage Payment, without requiring the Mortgage to be modified. The Payment Supplement will provide a temporary payment reduction for three years, after which the Borrower will be responsible for resuming payment of the full monthly P&I amount.

The Payment Supplement relies on HUD's statutory Partial Claim authority under Section 230 of the National Housing Act. HUD's statutory authority to pay a Partial Claim only allows for Partial Claim funds to be applied first to any arrearage, and then to make payments to principal due under the Mortgage. As a result, Borrowers in the Payment Supplement will have Partial Claim funds applied to their arrearage in the same manner as the standalone Partial Claim and then will receive a MoPR to cover a portion of the principal due with the Borrower's monthly Mortgage Payment (which is not currently permitted in connection with a standalone Partial Claim) for a period of three years. The Partial Claim and Payment Supplement will be funded by FHA's MMI Fund and will be evidenced by a zero-interest Note and Subordinate Mortgage, along with a Payment Supplement Agreement rider, given in favor of the Secretary (similar to the current documentation for other Partial Claims). This Note and Subordinate Mortgage will not require repayment of the amounts owed to the Secretary/FHA until maturity of the Mortgage, sale or transfer of the Property, payoff of the Mortgage, or the termination of FHA insurance on the Mortgage.

1 **Summary of**
2 **Changes**

This ML:

- updates Responsibility during Transfers of Servicing Rights (III.A.1.b.i);
- updates SFDMS Default Reporting – Types of Mortgages to Report (III.A.2.h.ii(B)(1));
- updates Incentives for COVID-19 Recovery Options (III.A.2.o.iii(B)(5));
- updates the COVID-19 Recovery Modification – Standard, Step 7 (III.A.2.o.iii(C)(2)(c));
- adds the Payment Supplement Partial Claim (III.A.2.o.iii(C)(3)); and updates the Claim Types section by adding Claim Type 33 – Payment Supplement (IV.A.2.k).

13 **FHA Single**
14 **Family Housing**
15 **Policy**
16 **Handbook**
17 **4000.1**

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

Responsibility during Transfers of Servicing Rights (III.A.1.b.i)
(B) Standard

18 **Servicing and**
19 **Loss Mitigation**

The Transferor Servicing Mortgagee remains responsible for the servicing of an FHA-insured Mortgage until the Transfer Date. The Transferor Servicing Mortgagee must verify that the change of legal rights to service has been reported accurately.

On the Transfer Date, the Transferee Servicing Mortgagee assumes responsibility for:

- all servicing actions, including:
 - ensuring resolution of any servicing errors that were, and remain, the responsibility of the Transferor Servicing Mortgagee;
 - where applicable, report the Delinquency/Default Status Codes in HUD’s Single Family Default Monitoring System (SFDMS);
- obtaining the complete mortgage file, including origination and servicing records; and
- ensuring that the original Mortgages, mortgage Notes, or deeds of trust are preserved.

The Transferee Servicing Mortgagee must also ensure transfer of any outstanding Payment Supplement Account and associated servicing records. Where applicable, on the Transfer Date, the Transferee Servicing Mortgagee assumes responsibility for:

- all servicing actions associated with the Payment Supplement, including:

- 1 ○ proper accounting of funds held in the Payment Supplement
- 2 Account related to a Borrower's Payment Supplement; and
- 3 ○ proper administration of the Borrower's Payment Supplement
- 4 for the duration of the term remaining on the loss mitigation
- 5 action;
- 6 • obtaining the complete files relating to the Payment Supplement;
- 7 • obtaining any outstanding funds in the Payment Supplement
- 8 Account;

9 **SFDMS Default Reporting – Standard (III.A.2.h.ii(B))**

10 **(1) Types of Mortgages to Report**

11 Each month, the Mortgagee must report Default servicing activities for all

12 Mortgages that are 30, 60, and 90 Days or more in Default and all

13 Mortgages in a Payment Supplement Period as part of a Payment

14 Supplement, as of the last Day of the month.

15 The Mortgagee must report the status of four classes of Mortgages each

16 month:

- 17 • New Delinquencies: The Mortgagee must report Defaulted accounts
- 18 when one full installment is due and unpaid (30 Days Delinquent –
- 19 Status Code 42) and must continue reporting the applicable Status
- 20 Code until the Default is resolved.
- 21 • Open Delinquencies: The Mortgagee must continue to report a
- 22 Status Code 42 until a servicing action has been initiated/approved
- 23 and/or completed, which would warrant a Status Code change.
- 24 • Delinquencies Resolved During the Cycle Month: The Mortgagee
- 25 must report the appropriate Status Code to reflect that the
- 26 delinquency has been addressed.
- 27 • Mortgages Receiving a Payment Supplement: The Mortgagee must
- 28 report Status Code 51 with the applicable oldest unpaid installment
- 29 date and additional Status Codes as applicable.

30 **Standard (III.A.2.o.iii(B))**

31 **(6) Mortgagee Incentives for COVID-19 Recovery Options**

32 The Mortgagee may submit a claim for an incentive for the successful

33 completion of a COVID-19 Recovery Option. The Mortgagee may only file

34 a claim for incentives if the correct and complete claim is submitted to

35 HUD within 60 Days of the execution date of the COVID-19 Recovery

36 Option.

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Loss Mitigation Option	Compensation
COVID-19 Advance Loan Modification (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
Payment Supplement	\$1,000
COVID-19 PFS	\$1,000
COVID-19 DIL	\$250

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

(2) COVID-19 Recovery Modification

(c) Standard

Step 7 – Target Payment Not Achieved

If the Mortgagee cannot achieve the target payment using the above steps, then:

- if the COVID-19 Recovery Modification can achieve a minimum of 15 percent P&I payment reduction, the Mortgagee must offer the Borrower the COVID-19 Recovery Modification; or
- if the COVID-19 Recovery Modification cannot achieve a minimum of 15 percent P&I payment reduction, the Mortgagee must review the Borrower for the Payment Supplement.

(3) Payment Supplement

For Borrowers who do not meet the target payment requirements for a COVID-19 Recovery Modification, the Mortgagee must review the Borrower for the Payment Supplement if Partial Claim funds are available.

(a) Definitions

The Payment Supplement is an ongoing loss mitigation option that utilizes a Partial Claim to bring the Mortgage current coupled with the subsequent provision of a Monthly Principal Reduction (MoPR) applied towards the Borrower’s principal due each month on the Borrower’s

1 insured first Mortgage to provide payment relief without modification of
2 the Mortgage. The Payment Supplement is evidenced by a non-interest
3 bearing Note and Subordinate Mortgage, and Payment Supplement
4 Agreement rider, given in favor of the Secretary, representing the total
5 of all funds paid from the Mutual Mortgage Insurance Fund to bring the
6 Mortgage current and then temporarily pay a portion of principal owed
7 by the Borrower each month to reduce the Borrower's monthly
8 Mortgage Payment.

9 The Monthly Principal Reduction (MoPR) is the monthly amount of
10 principal reduction that the Mortgagee will disburse monthly, from the
11 Payment Supplement Account and applied to the payment of principal
12 due on the Borrower's FHA-insured first Mortgage with the Borrower's
13 monthly Mortgage Payment during the Payment Supplement Period.

14 Payment Supplement Documents refers to a non-interest bearing Note
15 and Subordinate Mortgage, and a Payment Supplement Agreement
16 rider, given in favor of the Secretary, which provide the terms and
17 conditions for the Payment Supplement.

18 The Payment Supplement Period is a 36 month period during which the
19 Mortgagee applies the Monthly Principal Reduction (MoPR) to reduce
20 the Borrower's monthly Mortgage Payment as specified in the Payment
21 Supplement Agreement.

22 The Payment Supplement Account is a separate, non-interest bearing
23 custodial account that holds the balance of the funds paid by FHA for
24 the purpose of implementing the Payment Supplement, clearly marked
25 as holding funds for the Payment Supplement, and kept separate from
26 funds associated with the FHA-insured Mortgage, including escrow
27 funds.

28 **(b) Eligibility**

29 The Mortgagee must ensure that:

- 30 • there are sufficient Partial Claim funds available to cover
31 arrearages and MoPR equal to a minimum of 5 percent of the
32 P&I portion of the Borrower's monthly Mortgage Payment and
33 \$20.00 per month for a Payment Supplement Period of 36
34 months;
- 35 • the Borrower meets the requirements for Loss Mitigation and
36 Bankruptcy Proceedings (III.A.2.i.viii);
- 37 • the principal portion of the Borrower's first monthly Mortgage
38 payment after the Mortgage is brought current will be greater
39 than or equal to 5 percent of the Borrower's P&I and \$20.00 per
40 month; and

- 1 • the Borrower indicates they have the ability to make the monthly
2 Mortgage payment under the Payment Supplement Agreement.

3 The Borrower is not eligible for a new Payment Supplement until 36
4 months after the date the Borrower executes the Payment Supplement
5 Agreement, except for Non-Borrowers Who Acquired Title through an
6 Exempted Transfer.

7 **(c) Standard**

8 The Mortgagee may only submit one claim for the Payment
9 Supplement. The Mortgagee must submit the claim for the Payment
10 Supplement no later than 60 Days from the date of execution of the
11 Payment Supplement Agreement by the Borrower. The claim must
12 include:

- 13 • all arrearages advanced to bring the Mortgage current before the
14 start of the Payment Supplement Period; and
- 15 • the total amount required for all MoPR payments for the full
16 Payment Supplement Period.

17 The Payment Supplement Period is 36 months.

18 The maximum MoPR is the lesser of the initial monthly principal
19 payment or a 25 percent P&I reduction for 36 months. The minimum
20 MoPR is a 5 percent and \$20.00 P&I reduction for 36 months.

21 The Mortgagee must first use Partial Claim funds to cover all arrearages
22 and bring the Mortgage current.

23 For each month of the Payment Supplement Period, the Mortgagee must
24 only apply the MoPR to the principal owed on the Borrower's
25 Mortgage, and only after the Borrower has paid, at a minimum, their
26 portion of the monthly Mortgage Payment, as required in the Payment
27 Supplement Agreement.

28 The Mortgagee must disburse funds from the Payment Supplement
29 Account in accordance with the Payment Supplement Agreement and
30 then apply the MoPR to the principal portion of the Borrower's monthly
31 Mortgage Payment.

32 Additional funds received from the Borrower that exceed the minimum
33 portion of the Borrower's required payment do not impact the
34 application of the MoPR. Any additional payment made by the
35 Borrower must not be comingled with the MoPR or funds held in the
36 Payment Supplement Account. The Mortgagee must not recalculate the
37 MoPR during the Payment Supplement Period.

1 The Mortgagee must retain the balance of MoPR funds in the Payment
2 Supplement Account until disbursement of such funds is permitted,
3 consistent with the terms of the Payment Supplement Agreement, for
4 the benefit of the individual Borrower who has executed the Note,
5 Subordinate Mortgage, and Payment Supplement Agreement.

6 The Mortgagee must not charge the Borrower any additional fees or
7 interest for the Payment Supplement.

8 To calculate the amount of the Partial Claim the Mortgagee submits to
9 HUD for the Payment Supplement, the Mortgagee must follow the steps
10 below. No income documentation is required to determine the
11 Borrower's Payment Supplement.

12 **(i) Step 1 – Calculate Partial Claim Availability**

13 The Mortgagee must determine the maximum Partial Claim amount
14 available for the Payment Supplement. The Payment Supplement, in
15 addition to any other existing Partial Claim, must not exceed the
16 Statutory Maximum for Partial Claims (III.A.2.k.v(F)(1)).

17 The Mortgagee must calculate the Statutory Maximum for Partial
18 Claims, and then subtract any outstanding Partial Claim balances to
19 determine the amount available for the Payment Supplement.

20 **(ii) Step 2 – Calculate Amount Required to Reinstate the**
21 **Mortgage Using a Payment Supplement**

22 The Mortgagee must calculate the arrearages in accordance with
23 COVID-19 Recovery Standalone Partial Claim, Terms, second
24 bullet (III.A.2.o.iii(C)(1)(a)).

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

28 Mortgagees may include an additional monthly payment in
29 calculating the arrearage amount, as the payment will be past due
30 before the Borrower returns the completed Payment Supplement
31 loan documents.

32 If the Borrower does not have sufficient Partial Claim funds
33 available to bring the Mortgage current, the Borrower is not eligible
34 for the Payment Supplement and the Mortgagee must offer the
35 Borrower the lowest monthly P&I payment that can be achieved
36 under the COVID-19 Recovery Modification.

1 **(iii) Step 3 – Calculate Partial Claim Funds Available for MoPR**

2 The Mortgagee must determine the amount of Partial Claim funds
3 available for the MoPR.

4 The Mortgagee must subtract the amount needed to bring the
5 Mortgage current (calculated in Step 2) from the Borrower’s total
6 Partial Claim funds available (calculated in Step 1).

7 **(iv) Step 4 – Calculate Maximum MoPR**

8 **Step 4.A**

9 The Mortgagee must calculate the amount needed to reduce the
10 P&I portion of the Borrower’s monthly Mortgage Payment by
11 25 percent.

12 **Step 4.B**

13 The Mortgagee must determine the maximum MoPR.

14 The maximum MoPR is the lesser of the amount calculated in
15 Step 4.A or the principal portion of the Borrower’s next
16 monthly Mortgage Payment due after arrearages are cured and
17 the Mortgage is reinstated.

18 **(v) Step 5 – Calculate the MoPR**

19 **Step 5.A**

20 The Mortgagee must determine if the amount of Partial Claim
21 funds available for the MoPR (calculated in Step 3) is greater
22 than or equal to the maximum MoPR (calculated in Step 4.B)
23 for 36 months.

- 24 • If the Borrower has sufficient Partial Claim funds, the
25 amount of the MoPR is the MoPR (calculated in Step
26 4.B) for the 36 months of the Payment Supplement
27 Period.
- 28 • If the Borrower does not have sufficient Partial Claim
29 funds for the maximum MoPR for 36 months, the
30 Mortgagee must proceed to Step 5.B.

31 **Step 5.B**

32 If the Borrower does not have sufficient Partial Claim funds
33 available for the maximum MoPR for 36 months (calculated in
34 Step 5.A), the Mortgagee must divide the amount of Partial

1 Claim funds available for the MoPR (calculated in Step 3) by
2 36 months and proceed to Step 6.

3 **(vi) Step 6. Payment Reduction Test**

4 If the Borrower does not have sufficient Partial Claim funds
5 available for a maximum MoPR for 36 months (calculated in Step
6 5.A), the Mortgagee must determine if the Borrower has sufficient
7 Partial Claim funds available to receive the Payment Supplement.

8 The Mortgagee must determine if the MoPR will result in at least a 5
9 percent and \$20.00 reduction of the P&I portion of the Borrower's
10 monthly Mortgage Payment for a Payment Supplement Period of 36
11 months where the MoPR is only applied to principal.

- 12 • If the MoPR (calculated in Step 5.B) reduces the P&I portion
13 of the Borrower's monthly Mortgage Payment by a
14 minimum of 5 percent and \$20.00, the Mortgagee must
15 proceed to Step 7.
- 16 • If the MoPR (calculated in Step 5.B) fails to reduce the P&I
17 portion of the Borrower's monthly Mortgage Payment by 5
18 percent and \$20.00 the Borrower is ineligible for the
19 Payment Supplement. The Mortgagee must either:
 - 20 ○ offer the Borrower the lowest monthly P&I payment that
21 can be achieved under the COVID-19 Recovery
22 Modification; or
 - 23 ○ if the P&I portion of the Borrower's monthly Mortgage
24 payment increases under the COVID-19 Recovery
25 Modification and the Borrower has sufficient Partial
26 Claim Funds for a COVID-19 Standalone Partial Claim,
27 the Mortgagee must offer the Borrower the COVID-19
28 Standalone Partial Claim if the Borrower affirms that
29 they can make the offered payment.

30 **(vii) Step 7 – Compare Savings with Available Permanent Home**
31 **Retention Options**

32 If the MoPR (calculated in Step 5.B) achieves a minimum of 5
33 percent and \$20.00 P&I payment reduction for 36 months, the
34 Mortgagee must compare the Borrower's proposed P&I monthly
35 Mortgage payment under the Payment Supplement with the
36 Borrower's proposed P&I monthly Mortgage payment under the
37 COVID-19 Recovery Modification to determine the greater payment
38 reduction.

39 If the Borrower is able to achieve a lower monthly Mortgage
40 Payment with the COVID-19 Recovery Modification, the

1 Mortgagee must offer the Borrower the COVID-19 Recovery
2 Modification.

3 If the Borrower is not able to achieve a lower monthly Mortgage
4 Payment utilizing the COVID-19 Recovery Modification, the
5 Mortgagee must offer the Borrower the maximum allowable
6 Payment Supplement.

7 The Mortgagee must document the Servicing File with the option
8 offered to the Borrower.

9 **(d) Payment Supplement Agreement**

10 **(i) Standard**

11 The Mortgagee must prepare a Payment Supplement Agreement that
12 includes the provisions of HUD's model Payment Supplement
13 Agreement.

14 The Mortgagee must include and incorporate the Payment
15 Supplement Agreement as a rider to the Payment Supplement
16 promissory Note. The Mortgagee must ensure that all Payment
17 Supplement Documents are legally enforceable and comply with all
18 state and local requirements.

19 The Borrower is required to sign and return the Payment
20 Supplement Documents prior to the Mortgagee's application of the
21 first MoPR.

22 **(e) Payment Supplement Account**

23 **(1) Standard**

24 The Mortgagee must segregate the funds paid by FHA for the
25 MoPR in a separate, non-interest bearing custodial account (the
26 Payment Supplement Account) characterized by the following:

- 27 • is deposited with a financial institution whose accounts are
28 insured by the Federal Deposit Insurance Corporation
29 (FDIC) or the National Credit Union Administration
30 (NCUA);
- 31 • does not limit the Mortgagee's access to funds for the
32 MoPR, require an advance notice of withdrawal, or require
33 the payment of a withdrawal penalty; and
- 34 • clearly identifies the funds being held in that account as
35 being derived from and held as part of the subordinate
36 promissory Note and subordinate Mortgage executed by the

1 Borrower as part of the Payment Supplement loss mitigation
2 action being undertaken by the Mortgagee.

3 The Mortgagee must ensure that the funds in the Payment
4 Supplement Account are clearly delineated as funds held as a result
5 of the Partial Claim promissory Note and subordinate Mortgage
6 executed by the Borrower for use only as provided for in the
7 Payment Supplement Agreement. Neither the Mortgagee nor the
8 Borrower has any discretion in the use and application of the funds
9 from the Payment Supplement.

10 Mortgagees utilizing a Trust Clearing Account must withdraw the
11 portion that is to be applied to the Payment Supplement Account
12 within 48 hours of receiving the Partial Claim funds from HUD.

13 Mortgagees are not prohibited from holding MoPR funds for
14 multiple Mortgages in a single account for implementing the
15 Payment Supplement; however, the Mortgagee must not commingle
16 MoPR, even temporarily, with funds associated with any FHA-
17 insured Mortgage, escrow funds, funds used for the Mortgagee's
18 general operating purposes, or any other purpose.

19 In the event of a Mortgagee transfer of the Borrower's FHA-insured
20 Mortgage, the Mortgagee must also ensure that the funds in the
21 Payment Supplement Account awaiting disbursement as part of the
22 loss mitigation action undertaken by the Mortgagee are transferred
23 to the new Mortgagee at the same time as the Mortgagee transfer
24 and the new Mortgagee must assume and carry out any remaining
25 obligations of the Mortgagee in connection with the ongoing loss
26 mitigation action consistent with the terms of the Payment
27 Supplement Agreement.

28 If the Borrower enters into bankruptcy during the Payment
29 Supplement Period, the Mortgagee must continue to apply the
30 MoPR in accordance with the terms of the Payment Supplement
31 Agreement unless otherwise required or permitted by law. If so
32 required, the Mortgagee must seek court approval for the Payment
33 Supplement and the Borrower's reaffirmation of the Partial Claim
34 debt. Any additional Loss Mitigation offered during bankruptcy
35 must be in accordance with Loss Mitigation during Bankruptcy
36 Proceedings (III.A.2.i.viii(A)(1)).

37 **(2) Interest on Payment Supplement Account**

38 Neither the Mortgagee nor the Borrower may earn interest on a
39 Payment Supplement Account.

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(f) Document Delivery Requirements

The Mortgagee must submit the Payment Supplement Agreement and all required documentation for Partial Claims as listed under [FHA-HAMP Loan Documents](#) (III.A.2.k.v(H)), except no TPP is required. The Payment Supplement Agreement must be submitted to HUD as a rider to the Partial Claim promissory Note.

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

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)) if a Mortgagee experiences additional delays out of their control, including past the automatic 90-Day extension for the recorded Mortgage.

(g) Required Documentation

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

- documentation of the amount of each MoPR disbursed from the Payment Supplement Account applied to principal due on the Borrower’s monthly Mortgage Payment;
- a copy of the executed Payment Supplement Documents.
- evidence that the subordinate Mortgage was timely submitted for recording; and
- the date the Mortgagee received the executed Payment Supplement Documents from the Borrower and the date the subordinate Mortgage was sent to be recorded.

(h) Disclosures to Borrower

(i) Payment Supplement Disclosure

The Mortgagee must send the Borrower a written disclosure annually, at minimum, for the duration of the Payment Supplement Period, beginning no later than one year from the month the first MoPR was applied, including:

- information about the Payment Supplement, including:
 - the funds applied to the arrearages upon execution of the Payment Supplement Agreement;
 - the accounting of the MoPR funds disbursed from the Payment Supplement Account and applied to principal due each month; and
 - the funds remaining in the Payment Supplement Account;

- 1 • the date of expiration of the Payment Supplement Period;
- 2 • the P&I payment after the expiration and an explanation that
- 3 this does not include taxes, insurance, MIP, and any
- 4 additional escrowed items or special assessments;
- 5 • the total outstanding Payment Supplement balance upon the
- 6 completion of the Payment Supplement Period; and
- 7 • a statement that the Borrower may voluntarily terminate the
- 8 Payment Supplement Agreement and resume their full
- 9 monthly Mortgage Payment without the MoPR with any
- 10 remaining funds in the Payment Supplement Account being
- 11 returned to HUD to repay the total outstanding Payment
- 12 Supplement balance associated with the Borrower's
- 13 promissory Note and subordinate Mortgage.

14 The Mortgagee may include the disclosure as part of, or with, a

15 monthly or annual billing statement. The disclosure may be sent

16 electronically.

17 **(ii) Disclosure Prior to Expiration of the Payment Supplement**

18 The Mortgagee must send the Borrower written notice between 60

19 and 90 Days before the expiration of the Payment Supplement

20 Period; and the written notice to the Borrower must include

21 information about:

- 22 • the expiration of the Payment Supplement Period;
- 23 • the accounting of the Payment Supplement, including:
 - 24 ○ the funds applied to the arrearages upon execution of the
 - 25 Payment Supplement Agreement;
 - 26 ○ the accounting of the MoPR funds disbursed from the
 - 27 Payment Supplement Account and used to pay a portion
 - 28 of the Borrower's principal due each month;
 - 29 ○ if applicable, any funds remaining in the Payment
 - 30 Supplement Account, which will be used to reduce the
 - 31 balance on the amount owed by the Borrower under the
 - 32 Payment Supplement promissory Note and subordinate
 - 33 Mortgage; and
 - 34 ○ the Borrower's estimated first monthly mortgage
 - 35 payment following the expiration of the Payment
 - 36 Supplement.

37 **(i) Subsequent Default during Payment Supplement Period**

38 If a Borrower is 30 Days or more past due during the Payment

39 Supplement Period, the Mortgagee must commence [Early Default](#)

40 [Intervention](#) (III.A.2.h) and determine the appropriate action below.

- 1 The appropriate action will determine if:
- 2 • the MoPR will continue to be applied for the remainder of the
 - 3 Payment Supplement Period without changes to the Payment
 - 4 Supplement Agreement; or
 - 5 • the Payment Supplement Agreement will be terminated.

6 **(i) Mortgage Reinstatement without Loss Mitigation - MoPR**

7 **Continues**

8 If the Borrower, without the use of a permanent loss mitigation

9 option, makes their portion of the missed monthly Mortgage

10 Payments as required in the Payment Supplement Agreement, the

11 MoPR must be disbursed from the Payment Supplement Account

12 and then applied to the missed payments as they are made. For

13 missed payments, the MoPR must only be applied to the principal

14 portion of the missed Mortgage Payment and for the exact amount

15 that would have been applied for an on-time payment.

16 The MoPR must be applied for the remainder of the Payment

17 Supplement Period as the Borrower makes each required payment.

18 **(ii) Mortgage Reinstatement with COVID-19 Recovery**

19 **Standalone Partial Claim – MoPR Continues**

20 If the Borrower requires a new loss mitigation option to reinstate

21 their Mortgage, the Mortgagee must first evaluate the Borrower for

22 an additional COVID-19 Recovery Standalone Partial Claim to bring

23 the Mortgage current.

24 The Mortgagee must determine the amount of funds needed for the

25 COVID-19 Recovery Standalone Partial Claim by:

- 26 • calculating the amount needed to bring the Mortgage
- 27 current, per the requirements for a [COVID-19 Recovery](#)
- 28 [Standalone Partial Claim](#) (III.A.2.o.iii(C)(1)); and
- 29 • reducing the amount needed to bring the Mortgage current
- 30 by the MoPR for each month it was not applied due to
- 31 missed payments by the Borrower.

32 If the Borrower has sufficient additional Partial Claim funds

33 available, the Mortgagee must:

- 34 • ensure the Borrower attests they can resume their portion of
- 35 the monthly Mortgage Payments under the terms of the
- 36 Payment Supplement Agreement;
- 37 • ensure all requirements in accordance with a [COVID-19](#)
- 38 [Recovery Standalone Partial Claim](#) (III.A.2.o.iii(C)(1)) are
- 39 met; and

1 **(iv) Mortgage Cannot Be Reinstated - MoPR Terminates**

2 For Borrowers who have not completed the Payment Supplement
3 Period and cannot reinstate their Mortgage, the Mortgagee must
4 ensure the following requirements are met, as applicable.

5 **(a) Pre-Foreclosure Sales**

6 In addition to the requirements for a PFS, the Mortgagee must:

- 7 • proceed with the PFS requirements under [Pre-Foreclosure](#)
8 [Sale](#) (III.A.2.1.ii);
- 9 • not advance MoPR funds on behalf of the Borrower after the
10 Borrower has executed the Approval to Participate (ATP)
11 agreement (form HUD-90045);
- 12 • provide the Borrower with a disclosure statement including:
 - 13 ○ the Mortgagee will not advance funds to cover the
14 MoPR during the PFS Marketing period;
 - 15 ○ the Payment Supplement Agreement will be terminated
16 at the completion of the PFS;
 - 17 ○ the amount of the Partial Claim that was used to bring
18 the Mortgage current at the start of the Payment
19 Supplement Period;
 - 20 ○ the total amount of funds that were disbursed from the
21 Payment Supplement Account for MoPR payments; and
 - 22 ○ the amount of individual MoPR payments and the
23 months for which they were applied;
- 24 • ensure the Closing Agent pays off the full amount of the
25 Note that remains outstanding at closing [to HUD](#) and no
26 funds remaining in the Payment Supplement Account are
27 returned to the Borrower;
- 28 • within 30 Days of the date the PFS is completed, upload into
29 P260 an accounting of the Payment Supplement, including:
 - 30 ○ the amount that was used to bring the Mortgage current
31 at the start of the Payment Supplement Period;
 - 32 ○ the total amount applied to MoPR payments; and
 - 33 ○ the amount of individual MoPR payments and the
34 months for which they were applied; and
- 35 • calculate the amount of funds remaining in the Payment
36 Supplement Account and apply those funds as an offset to
37 the claim, by entering the amount on line 123 of HUD
38 27011 Part B.

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(b) Deed-in-Lieu of Foreclosure, Foreclosure Sales, and Claims Without Conveyance of Title

In addition to the requirements for DIL, foreclosures, and CWCOT, the Mortgagee must:

- not reduce the sales price by the amount of funds remaining in the Payment Supplement Account;
- within 30 Days of the date the sale is completed or the deed is transferred, upload into P260 a breakdown of the Payment Supplement, including:
 - the amount that was used to bring the Mortgage current at the start of the Payment Supplement Period;
 - the total amount applied to MoPR payments; and
 - the amount of individual MoPR payments and the months for which they were applied;
- calculate the amount of funds remaining in the Payment Supplement Account and apply those funds as an offset to the claim, by entering the amount on line 123 of HUD 27011 Part B;
 - the Partial Claim funds remaining in the Payment Supplement Account must not be returned to the Borrower; and
 - where the Mortgagee does not file a claim for a DIL, foreclosure, or a CWCOT, or where the CWCOT calculations show that the sales price covers the total outstanding debt, the Mortgagee must remit all remaining funds in the Payment Supplement Account [to HUD](#) within 30 Days of the sale date of the Property or the date the deed is transferred;
- ensure that the amount of funds remaining in the Payment Supplement Account is less than the unpaid principal balance; and
- if the amount of funds remaining in the Payment Supplement Account is greater than the unpaid principal balance, the Mortgagee must remit all Partial Claim funds in the Payment Supplement Account [to HUD](#) within 30 Days of the date the sale is completed or the deed is transferred.

(j) Termination of the Payment Supplement Agreement

The Mortgagee must remit [to HUD](#) any funds remaining in the Payment Supplement Account within 30 days of the termination of the Payment Supplement Agreement.

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(i) Completion of the Payment Supplement Period

If the Borrower makes their portion of the monthly Mortgage Payment as required in the Payment Supplement Agreement for the duration of the Payment Supplement Period, the Payment Supplement Period will end after no more than 36 months, as outlined in the Payment Supplement Agreement.

(ii) Early Termination of the Payment Supplement Agreement

(a) Voluntary Termination Request

The Mortgagee must terminate the Payment Supplement Agreement if upon Borrower request to voluntarily terminate the Payment Supplement Agreement the Borrower signs a document affirming they can resume their full monthly Mortgage Payment without the MoPR and that they no longer wish to receive the MoPR.

The Mortgagee must remit to HUD any funds remaining in the Payment Supplement Account after the voluntary early termination of the Payment Supplement Agreement. This will be used to reduce the balance on the amount owed by the Borrower under the Payment Supplement promissory Note and subordinate Mortgage.

(b) Loss Mitigation Action Completed

The Mortgagee must terminate the Payment Supplement Agreement when any subsequent loss mitigation option is executed by all required parties, except for a standalone Partial Claim.

(c) Foreclosure and CWCOT

The Mortgagee must terminate the Payment Supplement Agreement when the foreclosure sale or transfer of deed is completed.

(d) Property Transfer or Assumption

The Payment Supplement Agreement is non-transferrable and not assignable to a new Borrower. When a Property transfer or assumption occurs, all outstanding Partial Claims become due and payable, except for Non-Borrowers Who Acquired Title through an Exempted Transfer.

Upon approval by the Mortgagee of the transfer or assumption, or when the Mortgagee receives actual or constructive knowledge of the transfer of ownership, the Mortgagee must:

- terminate the Payment Supplement Agreement;

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- provide the Borrower a disclosure statement about the breakdown of the Payment Supplement, including:
 - the amount that was used to bring the Mortgage current at the start of the Payment Supplement Period; and
 - the total amount applied to MoPR payments, including the amount of individual MoPR payments and the months for which they were applied.
- remit to HUD any funds remaining in the Payment Supplement Account after the expiration of the Payment Supplement Period, no later than 30 Days after the date of termination of the Payment Supplement Agreement. This will be used to reduce the balance on the amount owed by the Borrower under the Payment Supplement promissory Note and subordinate Mortgage.

(e) Sale (non-PFS)

If the Borrower sells the Property as a traditional sale that fully satisfies the first Mortgage and the Payment Supplement before the end of the Payment Supplement Period, the Mortgagee must:

- reflect, as a credit, and list as a separate line item any funds remaining in the Payment Supplement Account to the outstanding principal portion of the first Mortgage when issuing a payoff statement to the Borrower or receiving payoff funds from the Borrower; and
- provide the Borrower a disclosure statement about the breakdown of the Payment Supplement, including:
 - the amount that was used to bring the Mortgage current at the start of the Payment Supplement Period; and
 - the total amount applied to MoPR payments, including the amount of individual MoPR payments and the months for which they were applied.

(f) Refinance

If the Borrower refinances the Mortgage before the end of the Payment Supplement Period, the Mortgagee must:

For a Standard Refinance or a Cash-Out Refinance:

- terminate the Payment Supplement Agreement;
- reflect, as a credit, and list as a separate line item any Partial Claim funds remaining in the Payment Supplement Account to the outstanding principal portion of the first Mortgage

- 1 when issuing a payoff statement to the Borrower or receiving
2 payoff funds from the Borrower;
- 3 • provide the Borrower a disclosure statement about the
4 accounting of the Payment Supplement, including:
 - 5 ○ the amount that was used to bring the Mortgage current
6 at the start of the Payment Supplement Period; and
 - 7 ○ the total amount applied to MoPR payments including
8 the amount of individual MoPR payments and the
9 months for which they were applied.

- 10 For a Streamlined Refinance, obtain approval from HUD's National
11 Servicing Center to resubordinate the Borrower's Partial Claim
12 under the refinanced Mortgage and:
- 13 • reflect, as a credit, and list as a separate line item, any Partial
14 Claim funds remaining in the Payment Supplement Account
15 to the outstanding principal portion of the first Mortgage
16 when issuing a payoff statement to the Borrower or receiving
17 payoff funds from the Borrower;
 - 18 • provide the Borrower a disclosure statement about the
19 breakdown of the Payment Supplement, including:
 - 20 ○ the amount that was used to bring the Mortgage current
21 at the start of the Payment Supplement Period; and
 - 22 ○ the total amount applied to MoPR payments, including
23 the amount of individual MoPR payments and the
24 months for which they were applied.

25 **(k) Reporting to HUD**

26 The Mortgagee must report the use of a Payment Supplement in
27 SFDMS, using Delinquency/Default Status (DDS) Code 51 – Payment
28 Supplement Started.

29 While the Borrower remains in the Payment Supplement Period, the
30 Mortgagee must continue to report DDS Code 51 with the applicable
31 oldest unpaid installment date.

32 For every month the Borrower makes their required payment under the
33 terms of the Payment Supplement Agreement, the Mortgagee must
34 report DDS Code 51 with the applicable oldest unpaid installment date
35 indicating that the Mortgage is current.

- 36 • If occupancy is not required to be determined, the Mortgagee
37 must report Occupancy Status Code 8 - Occupancy
38 Determination Not Required.
- 39 • The Mortgagee must not report DDS Code 20 or 98 if the
40 Payment Supplement Agreement is still in effect for the duration
41 of the Payment Supplement Period.

1 After the expiration of the Payment Supplement Period, the Mortgagee
2 must report:

- 3 • DDS Code 98 if the Mortgage is current; or
- 4 • the applicable code if the Mortgage is not current.

5 **(i) Completion or Voluntary Termination of Payment**
6 **Supplement Period**

7 If the Borrower completes the Payment Supplement Period or the
8 Borrower requests to terminate the Payment Supplement Agreement
9 and affirms they can resume their full monthly Mortgage Payment,
10 the Mortgagee must report DDS Code 98.

11 **(ii) Subsequent Default**

12 For every month the Borrower does not make their required
13 payment under the terms of the Payment Supplement Agreement,
14 the Mortgagee must report DDS Code 51 with the applicable oldest
15 unpaid installment date indicating that the Mortgage is past due. The
16 Mortgagee must report the applicable Occupancy Status Code and
17 Occupancy Status Date based on the most recent occupancy
18 determination.

19 If the Borrower does not make their required payment under the
20 terms of the Payment Supplement Agreement and then reinstates
21 their Mortgage without the use of a loss mitigation option, the
22 Mortgagee must continue to report DDS Code 51 with the
23 applicable oldest unpaid installment date. The Mortgagee must not
24 report DDS Code 20 or 98 as long as the Payment Supplement
25 Agreement is still in effect.

26 **a. Standalone Partial Claim after Subsequent Default**

27 If the Borrower does not make their required payment under the
28 terms of the Payment Supplement Agreement and then reinstates
29 their Mortgage with the use of a standalone Partial Claim, the
30 Mortgagee must:

- 31 • report the appropriate DDS Code for the standalone Partial
32 Claim utilized;
- 33 • continue to report DDS Code 51 with the applicable oldest
34 unpaid installment date; and
- 35 • not report DDS Code 20 or 98 as long as the Payment
36 Supplement Agreement is still in effect.

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b. Other Loss Mitigation Options after Subsequent Default

If the Borrower does not make their required payment under the terms of the Payment Supplement Agreement and then reinstates their Mortgage with the use of other loss mitigation options, the Mortgagee must:

- report the appropriate DDS Code for the Loss Mitigation Option utilized;
- continue to report DDS Code 51 with the applicable oldest unpaid installment date until new executed Loss Mitigation documents are received; and
- report DDS Code 98 upon reinstatement and stop reporting DDS Code 51.

c. Option Failure

If the Borrower does not make their required payment under the terms of the Payment Supplement Agreement and cannot reinstate their Mortgage with or without the use of loss mitigation, the Mortgagee must report DDS Code AQ – Option Failure with the applicable Occupancy Status Code and applicable Occupancy Status Date.

(iii) Sale, Refinance, or Other Mortgage Termination

If the Borrower sells the Property, refinances the Mortgage, or otherwise pays the Mortgage in full before the end of the Payment Supplement Period, the Mortgagee must report DDS Code 13.

**FHA Single
Family Housing
Policy
Handbook
4000.1**

**Claims and
Disposition**

Claim Types (IV.A.2)

k. Claim Type 33 – Payment Supplement

The Mortgagee may file a claim for a Payment Supplement incentive and insurance benefits under Claim Type 33 – Payment Supplement after the Mortgage is brought current. The Mortgagee may include in its claim the accumulated arrearages in the same manner as a standalone Partial Claim in addition to the funds needed for the Monthly Principal Reduction (MoPR) payments required for the Payment Supplement Period.

HUD will pay the Mortgagee a one-time financial incentive of \$1,000 for the use of a Payment Supplement in compliance with Mortgagee Incentives

1 for COVID-19 Recovery Options (III.A.2.o.iii(B)) and all regulatory
2 requirements and procedures relating to the submission of incentive claims.

3 HUD must receive a correct and complete claim submission of Parts A and
4 B via FHAC or FHA Catalyst within 60 Days of the execution date of the
5 promissory Note and Mortgage or the \$1,000 incentive will be disallowed.

6 **Paperwork** The information collection requirements contained in this document have
7 **Reduction Act** been approved by the Office of Management and Budget (OMB) under the
8 Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and
9 assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-
10 0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-
11 0414; 2502-0429; 2502-0494; 2502-0496; 2502-0525; 2502-0527; 2502-
12 0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-
13 0583; 2502-0584; 2502-0589; 2502-0595; 2502-0600; 2502-0610, and
14 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor,
15 and a person is not required to respond to, a collection of information unless
16 the collection displays a currently valid OMB control number.

17 **Signature**

//s14//
18 Julia R. Gordon
19 Assistant Secretary for Housing -
20 FHA Commissioner

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