

1 **HUD Handbook 4000.1**  
2 **FHA Single Family Housing Policy Handbook**

3  
4 **USER QUICK GUIDE**

5 Below are some helpful tips for using HUD Handbook 4000.1, *FHA Single Family Housing*  
6 *Policy Handbook* (Handbook 4000.1):

- 7 1. Handbook 4000.1 is organized in the sequence of a life cycle of a mortgage.  
8 2. Effective dates are shown at the end of heading titles, at the 4<sup>th</sup> level (e.g., I.A.1.a) in  
9 parentheses.  
10 3. Yellow highlighted text indicates the most recent updates to Handbook 4000.1.  
11 4. Capitalization of words in Handbook 4000.1 generally denotes terms that are defined in  
12 the Glossary.  
13 5. Hyperlinks are included in Handbook 4000.1 for easy navigation to a referenced section.  
14 Hyperlinks are indicated by blue, underlined text. Users can jump to the hyperlinked  
15 reference by clicking on the text. To navigate back to the hyperlink last used, click  
16 ALT+←.  
17 6. Use Ctrl+F to search on words or phrases.

FHA Single Family Housing Policy Handbook  
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### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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### 1 III. SERVICING AND LOSS MITIGATION

#### 2 A. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

3 This section provides the standards and procedures applicable to the servicing of all Single  
4 Family (one- to four-units) Mortgages insured under Title II of the National Housing Act, except  
5 for Home Equity Conversion Mortgages (HECM). The Mortgagee must fully comply with all of  
6 the following standards and procedures when servicing a Mortgage insured by the Federal  
7 Housing Administration (FHA).

##### 8 1. Servicing of FHA-Insured Mortgages

9 Only FHA-approved Mortgagees may service FHA-insured Mortgages. Mortgagees may service  
10 Mortgages they hold or that are held by other FHA-approved Mortgagees.

##### 11 a. Servicing Roles and Responsibilities (01/01/2025)

###### 12 i. Definitions

13 The Mortgage Holder is the entity who holds title to the FHA-insured Mortgage and has  
14 the right to enforce the mortgage agreement.

15 The Mortgage Servicer (Servicer) is the entity responsible for performing servicing  
16 actions on FHA-insured Mortgages on its behalf or on behalf of or at the direction of  
17 another FHA-approved Mortgagee.

###### 18 ii. Standard

19 Mortgage Holders must ensure all FHA-insured Mortgages are serviced by a Servicer in  
20 accordance with FHA requirements and all applicable laws.

21 Servicers must service all FHA-insured Mortgages in accordance with FHA requirements  
22 and all applicable laws.

##### 23 (A) Laws and Requirements Applicable to Mortgage Servicing

24 Mortgagees must comply with all laws, rules, and requirements applicable to  
25 mortgage servicing, including full compliance with the applicable requirements under  
26 the purview of the Consumer Financial Protection Bureau (CFPB), including the Real  
27 Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA),  
28 and, if applicable, Ginnie Mae's mortgage-backed securities requirements.

##### 29 (B) Contract Terms

30 Where mortgage contract terms are more stringent or restrictive than those provided  
31 for in applicable law, the Mortgagee must comply with the mortgage contract terms.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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###### (C) Nondiscrimination Policy

Mortgagees must comply with all antidiscrimination laws, rules, and requirements applicable to servicing performing FHA-insured Mortgages and FHA-insured Mortgages in Default, including full compliance with the applicable requirements of:

- the Fair Housing Act, 42 U.S.C. §§ 3601–3619;
- the Fair Credit Reporting Act (FCRA), 15 U.S.C. §§ 1681a–1681x; and
- the Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691a–1691f.

The Mortgagee must make all determinations with respect to the adequacy of the Borrower’s income in a uniform manner that does not discriminate because of the race, color, religion, sex (including sexual orientation or gender identity), age, national origin, familial status, disability, marital status, receipt of public assistance, because an applicant has in good faith exercised any right under the Consumer Credit Protection Act, or location of the Property.

###### (D) Language Accessibility

For all notices sent to the Borrower, the Mortgagee must include information about any availability of language access services offered by the Mortgagee for Borrowers with LEP (this information must be provided, at a minimum, in Spanish and must include an advisement to seek translation or other language assistance).

##### b. Responsibility for Servicing Actions (01/01/2025)

Mortgage Holders are responsible for all servicing actions, including the acts of its Servicers.

Servicers are responsible for their actions in servicing FHA-insured Mortgages, Partial Claim Subordinate Mortgages, and Payment Supplement Subordinate Mortgages. The Servicer is also responsible for actions taken at the direction, or on behalf, of the Mortgage Holder.

The costs associated with subservicing may not be imposed on the Borrower or passed along to HUD in a claim for mortgage insurance benefits.

##### i. Responsibility during Transfers of Servicing Rights

###### (A) Definitions

The Transferor Servicing Mortgagee is the Mortgage Servicer that transfers servicing responsibilities.

The Transferee Servicing Mortgagee is the Mortgage Servicer to which the servicing responsibilities have been transferred.

The Transfer Date is the date on which the Borrower’s Mortgage Payment is first due to the Transferee Servicing Mortgagee.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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###### (B) Standard

The Transferor Servicing Mortgagee remains responsible for the servicing of an FHA-insured Mortgage and any Partial Claim(s) and Payment Supplement(s) until the Transfer Date. The Transferor Servicing Mortgagee must:

- verify that the change of legal rights to service has been reported accurately; and
- transfer the Borrower's language preference to the Transferee Servicing Mortgagee.

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, reporting the Delinquency/Default Status (DDS) Codes in HUD's Single Family Default Monitoring System (SFDMS);
- obtaining the complete mortgage file, including origination and servicing records;
- all servicing actions associated with any Partial Claim(s) and Payment Supplement(s); 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 but not limited to:
  - accounting of funds held in the Payment Supplement Account related to a Borrower's Payment Supplement; and
  - administration of the Borrower's Payment Supplement;
- obtaining the complete files relating to the Payment Supplement; and
- obtaining any outstanding funds in the Payment Supplement Account.

###### (C) Required Documentation

The Transferor Servicing Mortgagee must report the Transfer Date and update the mortgage record in FHA Connection (FHAC) or by Electronic Data Interchange (EDI) or Business to Government (B2G) within 15 Days of the Transfer Date.

##### ii. Responsibility for Servicing when the Mortgage is Sold

###### (A) Definition

A Mortgage Sale is a transaction in which a Mortgage Holder sells the Mortgage to another FHA-approved Mortgagee.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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1 The Selling Mortgage Holder or Selling Mortgagee is the Mortgagee that sells the  
2 Mortgage and thereby relinquishes all rights and obligations under the contract for  
3 mortgage insurance.

4 The Purchasing Mortgage Holder or Purchasing Mortgagee is the Mortgagee that  
5 purchases the Mortgage and thereby succeeds to all rights and obligations of the  
6 Selling Mortgage Holder under the contract for mortgage insurance.

##### **(B) Standard**

8 The Selling Mortgage Holder relinquishes all rights and obligations under the  
9 contract for mortgage insurance on the effective date of the sale. The Selling  
10 Mortgage Holder remains responsible for Mortgage Insurance Premiums (MIP) until  
11 notice of the sale is received by HUD via FHAC, EDI, or B2G.

12 As of the effective date of the sale, the Purchasing Mortgage Holder becomes  
13 responsible for outstanding MIP obligations, regardless of the date of accrual, and  
14 must confirm that the details of the Mortgage Sale have been reported accurately.

##### **(C) Required Documentation**

16 The Selling Mortgage Holder must report the effective date of the Mortgage Sale as  
17 the Transfer Date and update the mortgage record in FHAC or by EDI or B2G within  
18 15 Days of the date of the Mortgage Sale.

#### **iii. Registration with Mortgage Electronic Registration System, Inc.**

##### **(A) Definition**

21 The Mortgage Electronic Registration System (MERS) is an electronic tracking  
22 system identified as nominee for a holder of a Mortgage.

##### **(B) Standard**

24 Mortgagees may voluntarily register FHA-insured Mortgages with MERS. The holder  
25 remains responsible for all servicing actions.

#### **c. Providing Information to HUD (03/31/2022)**

27 The Mortgagee must respond to verbal or written requests for individual account  
28 information, including all servicing information and related data and the complete mortgage  
29 origination file, from HUD or from a HUD-approved counseling agency acting with the  
30 consent of the Borrower.

31 When HUD staff request information, the Mortgagee must make available legible documents  
32 and in the format (electronic or hard copy) requested within 24 hours of the request, or as

### III. SERVICING AND LOSS MITIGATION

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##### 1. Servicing of FHA-Insured Mortgages

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1 otherwise permitted by HUD or from a HUD-approved counseling agency acting with the  
2 consent of the Borrower.

#### 3 d. Communication with Borrowers and Authorized Third Parties (03/31/2022)

##### 4 i. Definition

5 Authorized Third Parties are parties who are not Borrowers on the Mortgage but who are  
6 authorized to communicate with Mortgagees regarding a Mortgage.

##### 7 ii. Standard

8 The Mortgagee must provide mortgage information and arrange for individual  
9 consultation with the Borrower and/or the Authorized Third Party, upon request by the  
10 Borrowers.

11 The Mortgagee must comply with all laws, rules, and requirements applicable to third-  
12 party access to mortgage information.

##### 13 iii. Required Documentation

14 If communicating with an Authorized Third Party, the Mortgagee must include  
15 documentation of the authorization in the servicing binder:

- 16 • a copy of a signed authorization from the Borrower;
- 17 • a copy of a Power of Attorney (POA), order of guardianship, or other  
18 documentation authorizing that third party to act on behalf of the Borrower; or
- 19 • other documentation showing legal authorization to access the Borrower's  
20 records.

#### 21 e. Payment Administration (03/31/2022)

##### 22 i. Receipt of Payments

##### 23 (A) Definition

24 A Trust Clearing Account refers to a fiduciary account containing Borrower funds  
25 that will be transferred by the Mortgagee to another account before the end of an  
26 accounting period.

##### 27 (B) Standard

28 The Mortgagee must either use a Trust Clearing Account or special custodial account  
29 to hold all payments on the insured Mortgage.

30 The Mortgagee's Trust Clearing Account may be used for collections received on all  
31 types of Mortgages. If a Trust Clearing Account is not used, the Mortgagee must  
32 immediately transfer payments into a special custodial account.



### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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###### 1           ii. Application of Payments

2           Mortgagees using special custodial accounts must withdraw an amount equal to the  
3           principal, interest, and service charges within 30 Days after deposit and post to the  
4           Borrower's records accordingly.

5           The Mortgagee must apply Borrower payments in the following order:

- 6           • to MIPs due, if any;
- 7           • to charges for Ground Rents, taxes, special assessments, including any  
8           assessments related to a Property Assessed Clean Energy (PACE) obligation,  
9           flood insurance premiums, if required, and fire and other hazard insurance  
10          premiums;
- 11          • to interest on the Mortgage;
- 12          • to amortization of the principal of the Mortgage; and
- 13          • to Late Charges, provided, however, that any amounts owed for Late Charges  
14          must be handled consistent with applicable laws.

15          The Mortgagee may only apply funds for payments of optional insurance coverage  
16          premiums after the application of funds to the Principal, Interest, Taxes, and Insurance  
17          (PITI) of the monthly Mortgage Payment.

###### 18          iii. Return of Partial Payments for Less than the Amount Due

###### 19               (A) Definition

20              A Partial Payment is a payment of any amount less than the full amount due under the  
21              Mortgage at the time the payment is tendered, including Late Charges and amounts  
22              advanced by the Mortgagee on behalf of the Borrower.

###### 23               (B) Standard

24              For performing Mortgages, the Mortgagee may return any Partial Payment to the  
25              Borrower with a letter of explanation.

###### 26               (C) Required Documentation

27              The Mortgagee must note in its Servicing File any Partial Payments received and, if  
28              applicable, documentation on the date the payment was returned with a letter of  
29              explanation.

###### 30          iv. Application of Partial Prepayments

###### 31               (A) Definition

32              A Partial Prepayment is a payment of part of the principal amount before the date on  
33              which the principal is due.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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1 An Advance Full Monthly Payment is the payment of an amount larger than the full  
2 monthly payment, equaling an additional full monthly payment.

##### 3 **(B) Standard**

4 The Mortgagee must apply Partial Prepayments as requested by the Borrower as  
5 either:

- 6 • advance full monthly payments; or
- 7 • additional payments toward reducing principal and future monthly payments.

8 In the event that the Borrower does not specify how the Partial Prepayment should be  
9 applied, the Mortgagee must communicate with the Borrower to determine the  
10 method of application or apply the payment in a manner previously communicated to  
11 the Borrower.

12 If the Borrower elects to have Partial Prepayments equal to a full monthly payment  
13 applied as an advance full monthly payment, the Mortgagee must allow the Borrower  
14 to skip an equal number of installments in the future without creating a mortgage  
15 Default or incurring a Late Charge.

##### 16 v. Prepayment

##### 17 **(A) Definitions**

18 A Partial Prepayment is a payment of part of the principal amount before the date on  
19 which the principal is due.

20 A Prepayment in Full, or Payoff, is the payment in whole of the principal amount of  
21 the mortgage Note in advance of expiration of the term of the mortgage Note.

22 The Installment Due Date is the first Day of the month, as provided for in the security  
23 instrument.

##### 24 **(B) Standard**

25 The Mortgagee must accept a prepayment of a Mortgage in whole or in part on any  
26 Installment Due Date without penalty to the Borrower.

##### 27 **(C) Prepayment Procedures**

##### 28 **(1) Mortgages Closed on or after January 21, 2015**

29 The Mortgagee must accept a prepayment on a Mortgage closed on or after  
30 January 21, 2015, at any time and in any amount. The Mortgagee must calculate  
31 the interest as of the date the prepayment is received, not as of the next  
32 Installment Due Date.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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### (2) Mortgages Closed before January 21, 2015

#### (a) Mortgages Insured on or after August 2, 1985

The Mortgagee must accept a prepayment on a Mortgage insured on or after August 2, 1985 and closed before January 21, 2015, if the Borrower prepays the Mortgage in full on the first Day of any month in the term of the Mortgage.

If prepayment is offered on a Day other than the Installment Due Date, the Mortgagee may:

- refuse to accept the prepayment until the first Day of the next month; or
- accept the prepayment and require the payment of interest to the first Day of the next month. For Prepayment in Full, this option may only be used if the Mortgagee has provided the [Payoff Procedure Disclosure](#) to the Borrower.

#### (b) Mortgages Insured Prior to August 2, 1985

##### (i) Definitions

Notice of Intent to Prepay refers to the advance notice that Borrowers on Mortgages insured before August 2, 1985, must provide in order to prepay their FHA-insured Mortgages in full without penalty.

The 30-Day Advance Prepayment Notice Period refers to the time requirement for the Borrower to provide advance notice to the Mortgagee for prepayment of an FHA-insured Mortgage insured prior to August 2, 1985.

##### (ii) Standard

The Mortgagee must accept prepayment on a Mortgage insured prior to August 2, 1985, if the Borrower:

- submits to the Mortgagee a Notice of Intent to Prepay at least 30 Days prior to the prepayment; and
- prepays the Mortgage in full on the first Day of any month in the term of the Mortgage.

If a prepayment is offered on a day other than the Installment Due Date, the Mortgagee may:

- refuse to accept the prepayment until the first Day of the month following the expiration of the 30-Day Advance Prepayment Notice Period; or
- accept prepayment and require the payment of interest to the first Day of the month following the expiration of the 30-Day Advance

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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1 Prepayment Notice Period. For Prepayment in Full, this option  
2 may only be used if the Mortgagee has provided the Payoff  
3 Disclosure to the Borrower.

#### 4 ***(iii) Borrower's Notice of Intent to Prepay***

5 For Mortgages insured prior to August 2, 1985, the Borrower must send,  
6 and the Mortgagee must receive, the Borrower's Notice of Intent to Prepay  
7 at least 30 Days prior to prepayment.

8 If the Borrower submits a prepayment without previously sending a  
9 Borrower's Notice of Intent to Prepay, the Mortgagee may consider  
10 receipt of the prepayment as the Borrower's Notice of Intent to Prepay.  
11 The Mortgagee may choose to:

- 12 • provide a Payoff Disclosure, enabling the Mortgagee to:
  - 13 ○ defer acceptance of prepayment until the first Day of the month
  - 14 following the date prepayment is tendered; or
  - 15 ○ accept the prepayment and require the payment of interest to
  - 16 the first Day of the month following the date prepayment is
  - 17 tendered; or
- 18 • accept the prepayment on the date tendered, which limits the  
19 Mortgagee's collection of interest to that prepayment date.

#### 20 ***(iv) Effective Dates for Notice of Intent to Prepay***

21 The effective date of the Notice of Intent to Prepay is the date that the  
22 Notice was received by the Mortgagee, unless the Borrower can produce  
23 documentation showing that the Notice was received earlier. The 30-Day  
24 Advance Prepayment Notice Period required for Mortgages insured prior  
25 to August 2, 1985, begins on this date of receipt.

#### 26 ***(c) Installment Due Date Falls on a Non-business Day***

27 When the Installment Due Date falls on a non-business day, the Mortgagee  
28 must consider a Borrower's Notice of Intent to Prepay or the receipt of the  
29 prepayment amount for a Mortgage closed before January 21, 2015 timely if  
30 received on the next business day.

#### 31 **(3) Payoff Disclosure Requirements**

32 When notified of the Borrower's intent to prepay, the Mortgagee must send the  
33 [Payoff Procedure Disclosure](#) and copy of the payoff statement directly to the  
34 Borrower, even if the Mortgagee is dealing with an Authorized Third Party.

35 The Mortgagee will forfeit any interest collected after the date of prepayment if  
36 these disclosure requirements are not met.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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1                   **(D) Trustee’s Fee for Satisfactions**

2                   If specifically provided in the security instrument, the Mortgagee may charge the  
3                   Borrower the amount of the trustee’s fee, plus any reasonable and customary fee for  
4                   payment, or for the execution of a satisfaction, release or trustee’s deed when the debt  
5                   is paid in full.

6                   **(E) Recording Fees for Satisfactions**

7                   The Mortgagee may charge the Borrower a reasonable and customary fee for  
8                   recording satisfactions in states where recordation is not the responsibility of the  
9                   Mortgagee.

10           **f. Servicing Fees and Charges (03/31/2022)**

11           **i. Definition**

12           Allowable Fees and Charges are those costs associated with the servicing of the  
13           Mortgage that are permitted to be charged to the Borrower.

14           Prohibited Fees and Charges are those costs associated with the servicing of the  
15           Mortgage that may not be charged to the Borrower.

16           **ii. Standard**

17           **(A) Reasonable and Customary Fees and Charges**

18           The Mortgagee may collect certain fees and charges from the Borrower after the  
19           Mortgage is insured and as authorized by HUD below. All fees must be:

- 20           • reasonable and customary for the local jurisdiction;
- 21           • based on actual cost of the work performed or actual out-of-pocket expenses  
22           and not a percentage of either the face amount or the unpaid principal balance  
23           of the Mortgage; and
- 24           • within the [maximum amount allowed by HUD](#), up to the amount listed in  
25           Appendix 3.0.

26           **(B) Prohibited Fees and Charges**

27           The Mortgagee must not charge the Borrower for the following services:

- 28           • costs of telephone calls, personal visits with the Borrower, certified mail, or  
29           other activities that are normally considered a part of a prudent Mortgagee’s  
30           servicing activity;
- 31           • preparing and providing evidence of Payoff, Reconveyance, or termination of  
32           the Mortgage;
- 33           • providing information essential to the Payoff;
- 34           • recording the Payoff of the Mortgage in states where recordation is the  
35           responsibility of the Mortgagee;

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 1. Servicing of FHA-Insured Mortgages

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- fees for services performed by attorneys or trustees who are salaried members of the Mortgagee's staff; or
- Mortgagee's use of an independent contractor such as a tax service to furnish tax data and information necessary to pay property taxes or make the payments on behalf of the Mortgagee.

##### iii. Required Documentation

The Mortgagee must include in the Servicing File:

- documentation of the amount of any fees and charges paid or payable by the Borrower; and
- documentation supporting the actual cost of any work performed or out-of-pocket expenses.

##### g. Escrow (03/31/2022)

###### i. Definition

An Escrow Account is a set of funds collected by the Mortgagee for payment of taxes, insurance, and other items required by the mortgage Note.

###### ii. Escrowing of Funds

###### (A) Standard

The Mortgagee must segregate escrow funds, including those funds escrowed at closing, and deposit the funds in a special custodial account characterized by the following:

- with a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA);
- that does not limit the Mortgagee's access to funds, require an advance notice of withdrawal, or require the payment of a withdrawal penalty;
- that clearly identifies the type of funds being held in that account; and
- the Mortgagee may maintain a "cushion" that may not be increased beyond what is acceptable under RESPA regulations.

Mortgagees utilizing a Trust Clearing Account must withdraw the portion that is to be applied to escrows within 48 hours of the deposit and must transfer the portion to the escrow account for the Borrower's Mortgage.

Mortgagees are not prohibited from holding escrow funds for all types of Mortgages in a single bank account; however, the Mortgagee must not commingle escrow funds, even temporarily, with funds used for the Mortgagee's general operating purposes.

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#### (B) Interest on Escrows

HUD regulations neither forbid nor require that escrow accounts earn interest.

However, if escrow funds are invested, the Mortgagee must pass on to the Borrower the net income derived from the investment in accordance with the following:

- The Mortgagee must make investments and payments in compliance with state and federal agency requirements governing the handling and payment of interest earned on a Borrower's escrow account.
- The Mortgagee may only deduct the actual cost of administering the interest-bearing account before passing on to the Borrower the net earnings from the investment of their funds.
- The Mortgagee may not charge the Borrower expenses for maintaining the interest-bearing escrow account in an amount exceeding the gross interest earned from investing the funds in that account.

#### (C) Items to be Escrowed

The Mortgagee must require that the Borrower's total Mortgage Payment includes escrow funds to provide for payment of property charges, the security instrument, and applicable law. Items to be escrowed include:

- real estate taxes;
- special assessments, including any assessments related to a PACE obligation;
- Hazard Insurance required by the Mortgagee;
- Flood Insurance as applicable;
- FHA MIP;
- Ground Rent, if any; and
- other items which can attain priority over the security instrument as a lien or encumbrance on the Property, other than Condominium or Homeowners' Association (HOA) Fees.

#### (D) Required Documentation

The Mortgagee must retain documentation of its holding of all escrow funds on deposit.

#### iii. Escrow Analysis

The Mortgagee must perform analysis, at least annually, of the escrow account to provide for adequate collections to pay escrow bills when due without creating excessive surpluses. The Mortgagee must begin these analyses no later than the end of the second year of the life of the Mortgage.

The Mortgagee must retain any escrow surplus discovered when performing the annual escrow account analysis for a Delinquent Mortgage pursuant to the terms of the mortgage documents and federal law and regulation, including RESPA.

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#### iv. Processing Payments from Escrow Accounts

When making payments from escrow accounts, Mortgagees must:

- request a bill from the billing agency or a tax monitoring service indicating the property tax amount owed, if a bill has not been received within a reasonable amount of time before the payment due date;
- contact the Borrower, if necessary, to obtain the bill or the information needed to pay such bills if a bill is not received within a reasonable amount of time before the known payment due date;
- send payment directly to the billing agency or the taxing authority, as bills become payable, or as otherwise directed by state or local law; and
- make timely payments, even if making the payment requires advancing corporate funds when the escrow deposits are inadequate to meet these obligations.

The Mortgagee may contract with a tax service organization to manage the payment of taxes.

#### (A) Timeliness of Payments from Escrow Accounts

##### (1) Standard

The Mortgagee must ensure that all disbursements made on behalf of the Borrower are made as bills become payable.

If the Mortgagee fails to timely disburse escrow proceeds, the Mortgagee is prohibited from passing on to the Borrower any penalties resulting from the late payments unless:

- the late payment was the result of the Borrower's error or omission; and
- the Mortgagee attempted to obtain the billing information from the Borrower, billing agency, or the taxing authority in sufficient time to enable it to timely make the Disbursement.

##### (2) Required Documentation

The Mortgagee must document in its Servicing File its efforts to obtain the billing information from the Borrower, billing agency, the taxing authority, or a tax monitoring service indicating the property taxes status.

#### (B) Payment of Insurance Premiums

##### (1) Long-Term Policies

###### (a) Definition

Long-Term Policies refer to those insurance policies with terms of greater than one year.



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1                   **(b) Standard**

2                   The Mortgagee may not reject Long-Term Policies if the carrier and amount  
3                   are otherwise acceptable to the Mortgagee.

4                   **(c) Collecting Funds for Renewal Premiums**

5                   The Mortgagee may collect funds for renewal premiums on Long-Term  
6                   Policies in the following ways:

- 7                   • For renewal with the same policy term: the Mortgagee may  
8                   immediately begin collecting a monthly amount calculated to make  
9                   funds available 30 Days before the policy expires; or
- 10                  • For renewal with a one-year term: the Mortgagee may defer collection  
11                  of monthly escrows until 13 months before the expiration date of the  
12                  policy then begin monthly collection of 1/12th of the renewal premium  
13                  for a policy providing similar coverage.

14                  The Mortgagee may require a Borrower requesting to renew for a longer term  
15                  to make a lump sum deposit to escrow for the additional amount required to  
16                  pay the renewal premium with the Mortgagee 30 Days before the expiration  
17                  date of the present policy. If the additional deposit is not made, the Mortgagee  
18                  may renew the policy for one year and continue to escrow as for a one-year  
19                  policy.

20                  **(2) Optional Policies**

21                  **(a) Standard**

22                  The Mortgagee may advance corporate funds when the escrow deposits are  
23                  inadequate to meet obligations for payment of premiums for optional  
24                  insurance coverage, but the Mortgagee must not charge against the escrow  
25                  account any funds for these advances.

26                  **(i) Personal Property and Personal Liability Insurance**

27                  The Mortgagee must only escrow for the payment of Personal Property  
28                  and personal liability insurance coverage premiums if:

- 29                  • the Borrower has obtained Personal Property and personal liability  
30                  insurance coverage not directly related to the mortgaged Property;  
31                  and
- 32                  • the premiums are combined with Hazard Insurance in one  
33                  insurance premium payment.

34                  **(ii) Life Insurance and Disability Insurance**

35                  Mortgagees may not deposit premiums for life or disability insurance  
36                  coverage in the same bank accounts as other escrow payments.

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1 The Mortgagee must maintain separate records for these life or disability  
2 insurance coverage payments.

3 HUD does not require Mortgagees to itemize the Borrower's monthly  
4 contribution for life or disability coverage on payment coupons.

##### 5 (b) Required Documentation

6 The Mortgagee must note on the initial and annual escrow statements any  
7 Borrower's discretionary payment made as part of a monthly Mortgage  
8 Payment for optional policies.

##### 9 (3) Insurance Protecting Only the Mortgagee

10 The Mortgagee must not charge the Borrower any part of the cost of insurance  
11 coverage that does not benefit the Borrower.

##### 12 v. Use of Escrow Funds

13 The Mortgagee must only use escrow funds for the purpose for which they were  
14 collected.

15 The Mortgagee must never deduct amounts from a Borrower's escrow account to pay the  
16 following:

- 17 • penalties for late payments not directly resulting from the Borrower's error or  
18 omission;
- 19 • attorney's fees incurred in foreclosure actions that are not completed;
- 20 • inspection fees; and
- 21 • Delinquent mortgages or refunds of overpaid subsidy.

##### 22 h. Insurance Coverage Administration (12/21/2022)

##### 23 i. Hazard Insurance

24 If the Mortgagee requires the Borrower to purchase Hazard Insurance, the Mortgagee  
25 must:

- 26 • allow Borrowers to choose their own hazard insurance company;
- 27 • be named as a "Loss Payee" on the hazard insurance policy; and
- 28 • escrow sufficient funds for the payment of a renewal premium.

##### 29 (A) Payment of Renewal Premium

30 When the Mortgagee has required the Borrower to purchase Hazard Insurance, the  
31 Mortgagee must escrow for premium payments and pay renewal premiums by:

- 32 • remitting the renewal premium from available escrow funds; or
- 33 • where insufficient escrow funds exist, advancing corporate funds for the  
34 payment of the renewal premium.

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1 The Mortgagee must not **require** more coverage than is necessary to protect its  
2 investment. The Mortgagee must escrow renewal premiums for the entire amount if  
3 the Borrower chooses to insure the Property for more than the minimum amount.

#### **(B) Fee for Change in Hazard Insurance Policy**

5 The Mortgagee may assess a reasonable and customary fee, up to the amount listed in  
6 [Appendix 3.0](#), for processing the Borrower's request to change hazard insurance  
7 coverage when the existing policy has not yet expired.

#### **ii. Flood Insurance**

##### **(A) Standard**

10 The Mortgagee must review all Properties annually to determine if the Property is  
11 located within a Special Flood Hazard Area (SFHA).

12 For Properties located within an SFHA that are required to carry Flood Insurance, the  
13 Mortgagee must:

- 14 • ensure that Flood Insurance is in force for the life of the Mortgage; and
- 15 • review annually that the Property carries sufficient Flood Insurance.

##### **(B) Required Documentation**

17 The Mortgagee must include updated Flood Insurance information for Properties  
18 where Flood Insurance is required in the Servicing and Claims File.

#### **iii. Hazard or Flood Insurance Proceeds**

##### **(A) Insurance Claims**

21 The Mortgagee must take necessary steps to ensure that hazard or flood insurance  
22 claims are filed and settled as expeditiously as possible.

##### **(B) Loss Settlement Amounts for Borrower Expenses and Personal Property**

24 The Mortgagee must promptly release to the Borrower all insurance settlement  
25 proceeds received for coverage of a Borrower's Personal Property, temporary  
26 housing, and other transition expenses. The Mortgagee may not withhold  
27 Disbursement of such proceeds to cover an existing **A**rrearage without the written  
28 consent of the Borrower.

##### **(C) Insurance Proceeds for Home Damage**

###### **(1) Definition**

31 A Viable Repair Plan is a plan for repairs of a mortgaged Property within the  
32 amounts available through insurance proceeds and borrower funds.

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###### (2) Standard

The Mortgagee must expedite the release of insurance proceeds for needed home repairs after approving a Viable Repair Plan.

###### (D) Application of Insurance Proceeds to Unpaid Principal Balance

The Mortgagee may only apply insurance proceeds payable for home damages to Arrearages and/or reduction of the unpaid principal balance if:

- the amount of the proceeds exceeds the costs to repair the damages to the home; or
- the insurance proceeds are insufficient to repair the home damages based on a certified repair estimate, and the Borrower is unable to demonstrate that they have additional funds from other sources to complete the repairs.

###### iv. Optional Policies

###### (A) Personal Property and Personal Liability Insurance

The Mortgagee may allow the Borrower to add Personal Property and personal liability insurance premiums to their monthly payments.

###### (B) Life or Disability or Optional Coverage Income Policies

The Mortgagee must clearly separate the collection of unpaid optional coverage premiums from the collection of any unpaid Mortgage Payment. If the payment does not include all or a part of an optional coverage premium, the Mortgagee may not treat the failure to pay as a failure to pay a part of the Mortgage Payment.

###### i. Mortgage Insurance Premium Remittance (03/31/2022)

###### i. Definition

Annual or Periodic MIPs are those MIPs that are remitted to HUD each month.

###### ii. Standard

The Mortgagee must remit one-twelfth of the annual MIPs each month to HUD, regardless of whether it was received from the Borrower. The Mortgagee can access the Advance Premium Notice and case-level billing information in FHAC to determine monthly collections of MIPs.

The Mortgagee must remit MIPs in accordance with the original amortization schedule. MIPs accrue from the beginning of amortization, without regard to what time frame exists between endorsement and the beginning of amortization and without regard to any Partial Prepayments, Delinquent payments, agreements to postpone payments, or agreements to recast the Mortgage.

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1 For refinances, the Mortgagee must remit MIPs on the Mortgage being paid off through  
2 the month in which that Mortgage is paid in full.

#### 3 **iii. Mortgage Insurance Premium Reports**

##### 4 **(A) Use of FHA Connection or Alternate Report Retrieval Process**

5 The Mortgagee can access the Advance Premium Notice and case-level billing  
6 information in FHAC or through the Alternate Report Retrieval process to determine  
7 monthly collections of MIPs after endorsement.

##### 8 **(B) Reports after Transfer or Sale**

9 If, 90 Days after acquisition, a transferred or sold Mortgage has not appeared on  
10 HUD's monthly MIP report to the Transferee Servicing Mortgagee or Purchasing  
11 Mortgage Holder, that Mortgagee must ensure that the Servicer/Holder Transfer is  
12 completed in [FHAC](#) or through EDI or B2G.

#### 13 **j. Post-endorsement Mortgage Amendments (03/31/2022)**

##### 14 **i. Definition**

15 A Post-endorsement Mortgage Amendment is a change to the mortgage instruments, the  
16 nature of the obligation, or the security after the Mortgage has been insured.

##### 17 **ii. Modifying a Performing Mortgage**

##### 18 **(A) Modification without HUD Approval**

19 The Mortgagee may modify a performing Mortgage without HUD approval when:

- 20 • the modification is only for a reduction of the interest rate;
- 21 • the mortgage term is decreased and the Principal and Interest (P&I) will be  
22 increased \$100 or less per month; or
- 23 • the mortgage term is decreased and the Mortgage is more than three years old.

##### 24 **(B) Modification Requiring HUD Approval**

25 The Mortgagee must request and receive approval from **HUD** prior to modifying a  
26 performing Mortgage when the mortgage term is decreased and:

- 27 • the P&I will increase over \$100 per month; or
- 28 • the Mortgage is three years old or less.

29 The Mortgagee may modify the Mortgage to decrease the mortgage term by  
30 increasing the Mortgage Payment so long as all of the following conditions are met:

- 31 • The Mortgagee has received HUD approval.
- 32 • The Mortgage is current and the Borrower's payment history is satisfactory to  
33 the Mortgagee.

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- The Mortgagee has determined that the higher Mortgage Payment is within the Borrowers' ability to pay under the [underwriting standards in Origination through Post-closing/Endorsement](#).
- The modification agreement contains a clause permitting reversion to original mortgage terms if reversion can salvage a Delinquent account and prevent foreclosure.
- The modification agreement contains a certification by the Borrowers stating that they are aware of the positive and negative aspects of the modification and that they have voluntarily agreed to the increased payments.

#### (C) Principal Amount of Modified Performing Mortgage

The new principal amount of the modified Mortgage is the total unpaid amount due and payable under the original Mortgage. The Mortgagee may not include the following in the new principal amount:

- any revision of periodic MIP payments; and
- any legal or administrative costs attributable to the modification (these costs may be collected separately from the Borrower).

#### (D) Recordation of Lien

The Mortgagee must perform the legal steps required to accomplish the modification and must ensure that the Mortgage remains a valid first lien against the Property.

#### (E) Fee for Modification of Performing Mortgage

The Mortgagee may charge the Borrower a [reasonable and customary fee](#) for processing and recording a modification of a performing Mortgage when not modified under [HUD's Loss Mitigation Program](#).

The Mortgagee may not file an incentive claim for modifying a performing Mortgage.

#### (F) Reporting to HUD

The Mortgagee must report mortgage characteristics for all modifications through [FHAC](#) or FHA Catalyst.

#### (G) Required Documentation

When modifying a performing Mortgage, the Mortgagee must retain the following in their **Servicing Files**:

- a mortgage modification document, in the form of:
  - an amended original Note, with all changes initialed by all parties; or
  - a modification agreement executed by all parties;
- documentation evidencing that criteria for modifying the Mortgage with or without HUD approval, as appropriate, were met;

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- documentation showing calculations of the modified principal amount and the new monthly payment amount; and
- proof that any unpaid escrow added to the new principal amount was credited to the Borrower's escrow account.

### iii. Partial Releases, Easements, or Modification of Security

#### (A) Partial Releases from Condemnation Not Requiring HUD Approval

##### (1) Standard

The Mortgagee may execute a partial release of security without HUD approval if the partial release results from condemnation and all of the following conditions are met:

- the portion of the Property being conveyed does not exceed 10 percent of the area of the mortgaged Property;
- there is no damage to existing Structures or other improvements;
- there is no unrepaired damage to sewer, water, or paving;
- the Mortgagee has applied all of the payment received as compensation for the taking of the Property to reduce the unpaid principal balance of the Mortgage; and
- the government action requiring conveyance occurs after insurance of the Mortgage.

##### (2) Required Documentation

###### (a) Claim File

If the Mortgagee files a claim for mortgage insurance benefits, the Mortgagee must submit a certification that the requirements for partial releases of security as a result of condemnation have been met and retain a copy of the certification in the Claim File.

###### (b) Reporting to HUD

The Mortgagee must notify the [Appropriate Homeownership Center \(HOC\)](#) of the release by letter within 30 Days of the Mortgagee's signing of the release.

#### (B) Partial Releases, Easements, or Modification of Security Requiring HUD Approval

##### (1) Definition

Partial Release or Modification of Security is the conveyance, assignment, transfer, pledge, or encumbrance of any part of the mortgaged Property or any interest in the mortgaged Property other than a [Partial Release from](#)

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1 [Condemnation Not Requiring HUD Approval](#) or other title exceptions covered  
2 under the general waiver. The partial release or modification of security may be a:

- 3 • partial release;
- 4 • condemnation;
- 5 • order of taking;
- 6 • subordination or consent to Easement;
- 7 • lot line dispute/adjustment/land exchange;
- 8 • subdivision consent;
- 9 • aviation easement; or
- 10 • consent to change in covenants and restrictions.

##### 11 (2) Request Process

12 The Mortgagee must obtain HUD approval for any partial release or modification  
13 of security. The Mortgagee must send the following to the [Jurisdictional HOC](#) for  
14 the Property:

- 15 • a request containing the following information:
  - 16 ○ whether or not the Mortgage is in good standing;
  - 17 ○ the amount of the outstanding principal balance;
  - 18 ○ the due date of the last unpaid installment;
  - 19 ○ if the Mortgage is Delinquent, the number of Delinquent payments;
  - 20 ○ a list of unpaid special assessments, if any, and the total amount
  - 21 payable;
  - 22 ○ a complete legal description of the Property to be released or modified;
  - 23 ○ the Borrower's reasons for requesting that the Mortgagee make the
  - 24 partial release or modification of security, including how the land to be
  - 25 released or modified will be used;
  - 26 ○ the monetary consideration, if any, to be received by the Borrower;
  - 27 ○ the amount of a prepayment, if any, to the mortgage principal;
  - 28 ○ any restrictions to be imposed on the land to be released or modified;
  - 29 and
  - 30 ○ the case number of the mortgaged Property;
- 31 • a survey or sketch of the Property showing:
  - 32 ○ the dimensions of the portion to be released or modified;
  - 33 ○ the location of existing and proposed improvements; and
  - 34 ○ the relation of the Property to surrounding properties;
- 35 • plans and specifications, including Cost Estimates of any alterations  
36 proposed for the remaining Property after the release or modification; and
- 37 • a valid [FHA appraisal](#) that reflects:
  - 38 ○ the value before the partial release or modification of security; and
  - 39 ○ the value of the remaining Property after the partial release or
  - 40 modification of security.



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### (3) HUD Review

HUD will process the request for the partial release or modification of security and notify the Mortgagee of the approval or denial in writing.

### (4) Required Documentation

The Mortgagee must retain a copy of HUD's approval or denial in the Servicing File.

### (C) Fees

The Mortgagee may charge the Borrower reasonable and customary fees, up to the amounts listed in [Appendix 3.0](#), involved in processing [Partial Releases from Condemnation Not Requiring HUD Approval](#) or a [Partial Release, Easements, or Modification of Security Requiring HUD Approval](#).

#### iv. Change of Location of Dwelling or Improvements

##### (A) Relocation Requiring HUD Approval

### (1) Request to HUD

Except in the emergency situations described in [Emergency Relocation Not Requiring HUD Approval](#), the Mortgagee must obtain HUD approval prior to relocation. The Mortgagee must submit the following to the FHA Resource Center at [answers@hud.gov](mailto:answers@hud.gov):

- the Mortgagee's request for a change in improvement location; and
- supporting documentation, including architectural exhibits, a copy of the permit, and a description of materials.

HUD will analyze the request and notify the Mortgagee of the approval or denial of the request.

### (2) Relocation Requirements

The Mortgagee must ensure that relocations are performed as follows:

- the Mortgagee obtains a valid first lien on the new lot;
- the lien of the insured Mortgage has been extended to cover the new lot and the old lot has or has not been released from the lien, as appropriate;
- all damages to the Structure before, during, or after the relocation are repaired without cost to HUD; and
- the new lot is in an area known to be reasonably free from natural hazards or, if in an SFHA, the community participates in the National Flood Insurance Program (NFIP) and the Property will be insured against floods.

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### (3) Required Documentation

The Mortgagee must retain a copy of HUD's approval or denial in the Servicing File.

After the move has been completed and the appropriate substitute documents have been recorded, the Mortgagee must forward to HUD any documentation regarding the changes in the nature of the lien and retain copies in the Servicing File.

### (B) Emergency Relocation Not Requiring HUD Approval

#### (1) Permanent Relocation

##### (a) Standard

The Mortgagee may consent to the relocation of existing improvements in emergency situations, where immediate action must be taken to preserve the safety of the occupants and/or the undamaged condition of the existing improvements, without HUD approval.

##### (b) Notification to HUD of Completed Permanent Relocation

The Mortgagee must notify the [NSC](#) within 30 Days of the completed permanent relocation and submit a supplementary case binder containing supporting documentation for the change in improvement location.

The Mortgagee must include the following in its notification of the completion of the permanent relocation:

- the FHA case number of the mortgaged Property;
- the address and legal description of the lot of the improvement's previous location and the address and legal description of the new permanent location;
- a statement that HUD regulatory requirements have been met;
- a statement that the original Note is in full force and effect; and
- the outstanding balance of the insured Mortgage, and, if Delinquent, the number of payments, the dollar amount of the delinquency, and an explanation of how the delinquency is expected to be cured.

##### (c) Required Documentation

The Mortgagee must retain in the Servicing File a copy of its notification of the completion of the permanent relocation.

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### 1 (2) Temporary Relocation

#### 2 (a) Standard

3 When a temporary move becomes necessary, the Mortgagee may consult the  
4 [NSC](#) before the move, for written assurance that the mortgage insurance will  
5 not be affected adversely during the move.

6 All damages to the Structure before, during, or after the relocation have been  
7 or will be repaired without cost to HUD.

#### 8 (b) Notification to HUD of Completed Temporary Relocation

9 Within 30 Days of the completion of the temporary relocation, the Mortgagee  
10 must submit written notification to the NSC, advising that the temporary  
11 relocation has been completed. This notification must include the following:

- 12 • the FHA case number of the mortgaged Property;
- 13 • the address and legal description of the lot of the improvement's  
14 previous location and the address and legal description of the new  
15 temporary lot; and
- 16 • a statement that:
  - 17 ○ the move to the temporary lot has been accomplished; and
  - 18 ○ any damage caused by the temporary move has been or will be  
19 repaired at no cost to HUD.

#### 20 (c) Required Documentation

21 The Mortgagee must retain in the **S**ervicing **F**ile a copy of the notification to  
22 HUD of completed temporary relocation.

### 23 k. Mortgage Insurance Premium Cancellation (09/26/2022)

#### 24 i. Definition

25 MIP Cancellation is the end of the obligation to remit the FHA MIPs to HUD on an  
26 FHA-insured Mortgage closed on or after January 1, 2001 and assigned a case number  
27 before June 3, 2013.

#### 28 ii. Standard

29 The policies in this section apply only to FHA-insured Mortgages that:

- 30 • closed on or after January 1, 2001; and
- 31 • have a case number assignment before June 3, 2013.

32 HUD automatically cancels FHA MIPs under the conditions set forth below. The Loan-  
33 to-Value (LTV) ratio is based on the principal balance excluding Upfront MIP (UFMIP).

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1 The FHA contract of insurance remains in force for the Mortgage's full term, unless  
2 otherwise terminated.

3 HUD will not consider new appraised values in calculating if the Borrower has reached  
4 the required LTV ratio necessary for annual MIP cancellation.

5 HUD bases the cancellation of the annual MIP on the initial amortization schedule. In  
6 cases where Mortgage Payments have been accelerated or modified, HUD may base  
7 cancellation on the actual amortization of the Mortgage as provided to HUD by the  
8 servicing Mortgagee.

##### 9 (A) Mortgage Term of More Than 15 Years

10 For Mortgages with terms more than 15 years, HUD automatically cancels the annual  
11 MIP when the LTV ratio reaches 78 percent of the lesser of the initial sales price or  
12 appraised value at origination, provided the Borrower has paid the annual MIP for at  
13 least five years.

##### 14 (B) Mortgage Term 15 Years or Less and LTV Ratio of Greater than 90 Percent 15 with Case Numbers Assigned on and after July 14, 2008, and before 16 June 3, 2013

17 HUD automatically cancels the annual MIP when the LTV ratio reaches 78 percent of  
18 the lesser of the initial sales price or appraised value at origination regardless of the  
19 length of time the Borrower has paid the annual MIP for Mortgages that:

- 20 • have terms 15 years or less;
- 21 • have a case number assigned on and after July 14, 2008, and before  
22 June 3, 2013; and
- 23 • have LTV ratios greater than 90 percent.

##### 24 (C) Mortgage Term 15 Years or Less and LTV Ratio of 90 Percent and Greater, 25 Closed on or after January 1, 2001, and with Case Numbers Assigned before 26 July 14, 2008

27 HUD automatically cancels the annual MIP when the LTV ratio reaches 78 percent of  
28 the lesser of the initial sales price or appraised value regardless of the length of time  
29 the Borrower has paid the annual MIP for Mortgages that:

- 30 • have terms 15 years or less;
- 31 • closed on or after January 1, 2001, but have their case number assigned before  
32 July 14, 2008; and
- 33 • have LTV ratios 90 percent or greater.

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##### 1. Servicing of FHA-Insured Mortgages

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1                   **(D) Mortgage Term 15 Years or Less and LTV Ratio Greater than 78 percent**  
2                   **but Equal to or Less Than 90 Percent**

3 HUD automatically cancels the annual MIP when the LTV ratio reaches 78 percent of  
4 the lesser of the initial sales price or appraised value at origination regardless of the  
5 length of time the Borrower has paid the annual MIP for Mortgages that:

- 6                   • have terms 15 years or less;
- 7                   • have case numbers assigned on or after April 18, 2011; and
- 8                   • have LTV ratios of greater than 78 percent but equal to or less than 90  
9                   percent.

10 HUD does not charge annual MIP for Mortgages that:

- 11                   • have terms 15 years or less; have a case assigned on or after April 18, 2011,  
12                   but before June 3, 2013; and have LTV ratios of 78 percent or less;
- 13                   • have terms 15 years or less; have a case number assigned on or after  
14                   July 14, 2008 but before April 18, 2011; and have LTV ratios of 90 percent or  
15                   less; or
- 16                   • have terms 15 years or less; closed on or after January 1, 2001 and have a case  
17                   number assigned before July 14, 2008; and have LTV ratios of less than 90  
18                   percent.

19                   **(E) Borrower-Initiated Cancellation of MIP**

20 A Borrower who meets the following requirements may request cancellation of the  
21 collection of annual MIPs through their Mortgagee when:

- 22                   • the Borrower has reached the 78 percent threshold in advance of the scheduled  
23                   amortization due to Borrower prepayments to the principal, but not sooner  
24                   than five years from the date of origination, except for 15-year term  
25                   Mortgages; and
- 26                   • the Borrower has not been more than 30 Days Delinquent on the Mortgage  
27                   during the previous 12 months.

28 As part of the Mortgagee's annual disclosures to Borrowers, Mortgagees must notify  
29 Borrowers of their option to cancel the annual MIP in advance of the projected  
30 amortization date by making additional payments of mortgage principal.

31                   **(F) Processing MIP Cancellation**

32 The Mortgagee must process the MIP cancellation using the Monthly MIP  
33 cancellation function in [FHAC](#).

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

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### iii. Cancellation of MIP on Mortgages with Case Numbers Assigned on or after June 3, 2013

For Mortgages with FHA case numbers assigned on or after June 3, 2013, HUD automatically cancels FHA MIP as stated in [Appendix 1.0 - Mortgage Insurance Premiums](#).

### iv. Distributive Shares

#### (A) Definition

A Distributive Share is a share of any excess earnings from the Mutual Mortgage Insurance Fund (MMIF) that may be distributed to a Borrower after mortgage insurance termination.

#### (B) Payment of Distributive Shares

At HUD's discretion, HUD may pay Distributive Shares when mortgage insurance is terminated. Upon termination of the FHA mortgage insurance of a Mortgage, HUD will determine if Distributive Shares are available.

HUD is not liable for unpaid Distributive Shares that remain unclaimed six years from the date notification was first sent to the Borrower's last known address.

### I. Mortgage Insurance Termination (03/31/2022)

#### i. Definition

A Mortgage Insurance Termination is the ending of FHA Single Family mortgage insurance at which time the Mortgagee's obligation to remit MIP to HUD ends. Upon termination, the Borrower and Mortgagee will enjoy only those rights, if any, to which they would be entitled under the National Housing Act if the insurance contract terminated as a result of the insured Mortgage being paid in full.

#### ii. Standard

##### (A) Termination of Mortgage Insurance

HUD terminates the FHA insurance contract as follows:

- automatically when the Mortgage reaches maturity; or
- when the Mortgagee reports a termination code, such as:
  - prepayment (Borrower paid the Mortgage in full before the maturity date);
  - use of Home Disposition Option or non-conveyance foreclosure (the Property was acquired by a Mortgagee or third party at a foreclosure sale or was redeemed after foreclosure and no insurance claim or Claims Without Conveyance of Title (CWCOT) will be submitted to HUD);
  - conveyance for insurance benefits; or

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- voluntary termination (both the Mortgagee and Borrower agreed to voluntarily terminate FHA insurance).

The Mortgagee must report termination of a case to HUD via FHAC, B2G, or EDI within 15 Days of the actual event.

#### **(B) Voluntary Termination of Mortgage Insurance**

##### **(1) Definition**

A Voluntary Termination of Mortgage Insurance is when the Secretary, upon the mutual request of the Borrower and Mortgagee, terminates the FHA insurance contract associated with the Mortgage.

##### **(2) Standard**

The Borrower and the Mortgagee may agree to voluntarily terminate FHA mortgage insurance in accordance with Section 229 of the National Housing Act (12 U.S.C. § 1715(t)). A voluntary termination has the same effect on the Borrower and Mortgagee as a termination for payment in full.

##### **(a) Borrower's Consent to Voluntary Termination**

The Mortgagee must obtain a signed Borrower's Consent to Voluntary Termination of FHA Mortgage Insurance from each Borrower on the Mortgage.

##### **(b) Effect of Voluntary Termination on Outstanding Partial Claims**

Upon receipt of a Borrower's request for a voluntary termination, the Mortgagee must advise the Borrower that the Partial Claim promissory Note and Subordinate Mortgage amounts owed by the Borrower will become immediately due and payable upon termination if provided for under the terms of the Borrower's Partial Claim promissory Note.

##### **(c) Request for Voluntary Termination**

To request voluntary termination, the Mortgagee must:

- submit the request for voluntary termination of mortgage insurance in FHAC within 15 Days of receiving the executed Borrower's Consent form. On the Mortgage Record Changes menu, select Insurance Termination ([form HUD-27050-A, Insurance Termination](#)) and select Voluntary Termination (Term Type 21); and
- certify in [FHAC](#) that all Borrowers on the Mortgage have signed the consent form.

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### (C) Effective Date of Termination

#### (1) Standard

The effective date of termination of the contract of insurance is the last Day of the month in which one of the following occur:

- the date a voluntary termination request is received by the Commissioner;
- the date the Mortgage was prepaid; or
- where the Mortgagee notifies the Commissioner that a claim will not be filed, the date foreclosure proceedings were initiated or the Property was acquired by another party, including the Mortgagee.

#### (2) Required Documentation

The Mortgagee must note in the Servicing File and report in FHAC, B2G, or EDI the date on which the voluntary termination request is received by the Commissioner; the date notice is received by the Commissioner that the Mortgage was prepaid; or the date notice is received by the Commissioner that a claim will not be filed, or that the Property will not be conveyed. For FHA-to-FHA refinances, the Mortgagee processing the new refinance must report the projected and actual Closing Date.

### (D) MIP Due until Effective Date of Termination

The Mortgagee is obligated to pay the MIP due until the effective date of termination.

### (E) Escrow Balance Returned to Borrower

If no claim for insurance benefits will be filed, the Mortgagee must timely release the funds held in escrow in accordance with federal regulations, including RESPA, after the termination of the FHA-insured Mortgage.

### m. Disclosures (03/31/2022)

#### i. Statement of Escrow Account

At the Borrower's request, the Mortgagee must promptly furnish a statement of the escrow account in a clear and understandable form, with sufficient information to permit the Borrower to reconcile the account.

#### ii. Payoff Disclosure

##### (A) Definition

A Payoff Disclosure is a disclosure accompanying the payoff statement.



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1 For Mortgages closed before January 21, 2015, Mortgagees must include a  
2 description of the procedures for prepayment of a Mortgage with the payoff  
3 statement.

#### 4 (B) Standard

5 When notified of the Borrower's intent to prepay a Mortgage, the Mortgagee must  
6 send to the Borrower directly the Payoff Disclosure and copy of the payoff statement.

#### 7 (C) Required Documentation

8 The Mortgagee must retain a copy of the Payoff Disclosure in the **S**ervicing **F**ile.

### 9 iii. Annual Prepayment Disclosure Statements

#### 10 (A) Definition

11 An Annual Prepayment Disclosure Statement is a statement of the amount  
12 outstanding on the Mortgage and, for Mortgages closed before January 21, 2015, the  
13 requirements that the Borrower must fulfill upon prepayment to prevent accrual of  
14 interest after the date of prepayment.

#### 15 (B) Standard

16 The Mortgagee must send the Borrower a written [Annual Prepayment Disclosure](#)  
17 [Statement](#) on an annual basis.

#### 18 (C) Required Documentation

19 The Mortgagee must retain a copy of the Annual Prepayment Disclosure Statement in  
20 the **S**ervicing **F**ile.

### 21 iv. Statement for Income Tax Purposes

#### 22 (A) Definition

23 The Statement for Income Tax Purposes is an Internal Revenue Service (IRS) Form  
24 1098, *Mortgage Interest Statement*, or equivalent that provides documentation of  
25 taxes and interest paid by the Borrower during the preceding calendar year.

#### 26 (B) Standard

27 The Mortgagee must provide the Borrower with a Statement for Income Tax Purposes  
28 by January 30 of each year.

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##### 1. Servicing of FHA-Insured Mortgages

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### 1 (C) Required Documentation

2 The Mortgagee must retain a copy of each annual Statement for Income Tax Purposes  
3 in the Servicing File.

#### 4 n. Record Retention – Servicing File (03/31/2022)

##### 5 i. Definition

6 The Servicing File is the Mortgagee’s record of all servicing activity on an FHA-insured  
7 Mortgage.

##### 8 ii. Standard

9 Mortgagees must retain all Servicing Files for a minimum of seven years after the  
10 transfer or sale of the Mortgage or termination of mortgage insurance. The Mortgagee  
11 must maintain accurate records for each Mortgage serviced. In addition to the specific  
12 documentation requirements stated in this Handbook 4000.1, these records must include  
13 the following information:

- 14 • Mortgage origination and endorsement documentation, including copies of the  
15 following documents, if applicable:
  - 16 ○ the Conditional Commitment for insurance;
  - 17 ○ the *Firm Commitment*;
  - 18 ○ form [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*;
  - 19 and
  - 20 ○ the Mortgage Insurance Certificate (MIC);
- 21 • MIP payments made;
- 22 • all servicing actions, including resolution of any servicing errors;
- 23 • documentation related to any recovery of hazard insurance proceeds; and
- 24 • the FHA-insured Mortgages in the Mortgagee’s portfolio and information on  
25 which Mortgages have been acquired, sold, paid in full, and voluntarily  
26 terminated.

27 The Mortgagee must also retain, in electronic and hard copy, the Mortgage, mortgage  
28 Note, deed of trust, or a lost note affidavit acceptable under state law, with the electronic  
29 copy marked “copy.”

30 For cases for which a claim is filed, the Mortgagee must retain documentation in  
31 compliance with the [Claim File](#) section for at least seven years after the final claim or  
32 latest supplemental claim settlement date.

##### 33 iii. Record Reconciliations

34 HUD may require Mortgagees to provide information evidencing reconciliation of  
35 Mortgagee records with HUD. This information may include identification, by Mortgage,  
36 of the following:

- 37 • amount of MIP due and paid to HUD by time period for each insured Mortgage;

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- 1                   • date insurance was terminated or servicing transferred, if applicable; and
- 2                   • date servicing was acquired, for Mortgages acquired after September 1, 1982.

3 All Mortgagees must ensure that HUD's records accurately reflect the status of the  
4 Mortgage and both the correct Mortgage Holder and Servicer of record.

##### 5 **iv. Electronic Storage**

6 Where retention of a hard copy or original document is not required, Mortgagees may use  
7 electronic storage methods for all servicing-related documents required in accordance  
8 with HUD regulations, handbooks, Mortgagee Letters, and notices.

9 Regardless, the Mortgagee must be able to make available to HUD in the format  
10 (electronic or hard copy) requested legible documents within 24 hours of a request or as  
11 otherwise prescribed by HUD.

##### 12 **2. Default Servicing**

##### 13 **a. Mortgages in Delinquency or Default (03/31/2022)**

##### 14 **i. Definitions**

15 A Mortgage is Delinquent any time a Mortgage Payment is due and not paid.

16 A Mortgage is in Default when the Borrower fails to make any payment or perform any  
17 other obligation under the Mortgage, and such failure continues for a period of 30 Days.

18 The date of Default is 30 Days after:

- 19                   • the first uncorrected failure to perform any obligation under the Mortgage; or
- 20                   • the first failure to make a monthly payment which subsequent payments by the  
21 Borrower are insufficient to cover when applied to the overdue monthly payment  
22 in the order in which they become due.

##### 23 **ii. Standard**

24 The Mortgagee must ensure FHA-insured Mortgages in Delinquency or Default are  
25 serviced in accordance with FHA requirements and applicable laws.

26 For the purpose of determining the date of Default and timelines related to Default, HUD  
27 considers all months to have 30 Days.

##### 28 **b. Reporting to Consumer Reporting Agencies and the IRS (03/31/2022)**

29 The Mortgagee is responsible for:

- 30                   • complying with applicable law and federal regulations relating to reporting to  
31 consumer reporting agencies; and
- 32                   • ensuring that all reported information is accurate.

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1 The Mortgagee is also responsible for any required IRS reporting regarding acquisition of  
2 secured Property or cancellation of mortgage debt, in accordance with the Internal Revenue  
3 Code (IRC).

#### 4 c. Late Charges (03/31/2022)

##### 5 i. Definition

6 Late Charges are charges assessed if a Mortgage Payment is received more than 15 Days  
7 after the due date.

##### 8 ii. Standard

9 The Mortgagee may consider a Borrower's Mortgage Payment late if the payment is  
10 received by the Mortgagee more than 15 Days after the due date, except for payments  
11 received from Borrowers in accordance with a [Trial Payment Plan Agreement](#). The  
12 Mortgagee may assess a late charge on the 17<sup>th</sup> Day.

13 For Mortgages assigned a case number on or after March 14, 2016, the Mortgagee may  
14 assess a Late Charge, not to exceed 4 percent of the overdue payment of P&I and in  
15 accordance with applicable state and federal laws.

16 For Mortgages assigned a case number before March 14, 2016, the Mortgagee may assess  
17 a Late Charge calculated based on overdue PITI if permitted under the terms of the  
18 mortgage Note and under applicable state and federal laws.

#### 19 (A) Notifying the Borrower of the Late Charge

20 Before collecting the Late Charge or returning a Mortgage Payment to the Borrower  
21 for failing to pay the Late Charge, the Mortgagee must provide the Borrower with an  
22 advance written notice of the charge.

23 The Mortgagee must include in the advance notice the following information:

- 24 • the due date of the monthly Mortgage Payment;
- 25 • the amount of the regular monthly Mortgage Payment;
- 26 • the date on which the Late Charge will be imposed; and
- 27 • the amount of the Late Charge (or the full amount now due which consists of  
28 the regular monthly Mortgage Payment plus the Late Charge amount).

#### 29 (B) Application of Subsequent Payment to Unpaid Late Charges

30 After advance notice has been sent to the Borrower, the Mortgagee may:

- 31 • treat any subsequent payment that does not include the Late Charge in  
32 accordance with HUD's [Partial Payments for Mortgages in Default](#) section;  
33 and
- 34 • deduct amounts due for Late Charges owed for a previous installment.

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1           **(C) Default/Foreclosure Due to Unpaid Late Charges**

2           A Mortgage may be technically in Default by its terms if a Late Charge is not paid  
3           within 30 Days after it becomes due. However, the Mortgagee may not initiate  
4           foreclosure action when the only delinquency is due to:

- 5           • unpaid Late Charges that are due on the account; and/or
- 6           • unpaid monthly payments that remain unpaid because the Mortgagee did not  
7           comply with HUD's [Partial Payments for Mortgages in Default](#) section.

8           **iii. Required Documentation**

9           The Mortgagee must ensure that **the Servicing File** reflects any Late Charges assessed  
10          and includes any advance written notice of such charges sent to the Borrower.

11          **d. Partial Payments for Mortgages in Default (03/31/2022)**

12          **i. Acceptance of Partial Payments**

13          Unless subject to the exceptions in the [Return of Partial Payments for Mortgage in](#)  
14          [Default](#) section, the Mortgagee must accept any Partial Payment and either:

- 15          • apply the payment to the Borrower's account; or
- 16          • identify the payment with the Borrower's account and hold the payment in a  
17          suspense account. When a full monthly installment due under the Mortgage is  
18          accumulated, the Mortgagee must apply that amount to the Borrower's account.

19          **ii. Application of Partial Payments Totaling a Full Monthly Payment**

20          **(A) Standard**

21          When Partial Payments held for disposition total a full monthly **Mortgage Payment**,  
22          the Mortgagee must apply Borrower payments, in the following order, to:

- 23          • MIPs due, if any;
- 24          • charges for Ground Rents, taxes, special assessments, including any  
25          assessments related to a PACE obligation, flood insurance premiums, if  
26          required, and fire and other hazard insurance premiums;
- 27          • interest on the Mortgage;
- 28          • amortization of the principal of the Mortgage; and
- 29          • Late Charges, provided that any amounts owed for Late Charges must be  
30          handled consistent with Truth in Lending Act (TILA) regulations.

- 31          • This application of Partial Payments as a full monthly installment advances the date  
32          of the oldest unpaid installment, but not the [date of Default](#).

33          **(B) Required Documentation**

34          When applying Partial Payments totaling a full monthly **Mortgage Payment**, the  
35          Mortgagee must:

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- report the appropriate [Status Code](#) in the Single Family Default Monitoring System (SFDMS); and
- advance the Oldest Unpaid Installment (OUI) date one month.

#### iii. Return of Partial Payments for Mortgages in Default

##### (A) Standard

If the Mortgage is in Default, the Mortgagee may return the Partial Payment to the Borrower with a letter of explanation only under the following circumstances:

- when the payment represents less than half of the full amount due **under the terms of the Mortgage, including Late Charges, at the time the payment is tendered;**
- when the payment is less than the amount agreed to in a Forbearance **or Repayment** Plan;
- when the payment is less than the amount stated in an approved Trial Payment Plan (TPP) Agreement;
- when the Property is occupied by a rent-paying tenant and the rents are not being applied to the Mortgage Payments;
- when **the first legal action to initiate** foreclosure has been **completed;** or
- when it is 14 Days or more after the Mortgagee has mailed the Borrower a statement of the full amount due, including Late Charges, which advises that it intends to refuse to accept future Partial Payments (see [Application of Subsequent Payment to Unpaid Late Charges](#)), and either of the following conditions have occurred:
  - four or more full monthly installments are due but unpaid; or
  - a delinquency of any amount, including Late Charges, has continued for at least six months since the account first became Delinquent.

##### (B) Required Documentation

The Mortgagee must ensure that its **Servicing File** reflects any Partial Payments returned to the Borrower and includes any letters of explanation for the returned payments.

#### e. Lien Status (03/31/2022)

The Mortgagee must preserve the first lien status of the FHA-insured Mortgage. HUD will not pay a claim on a Mortgage that **is not in** first priority position.

#### f. Imminent Default (03/31/2022)

##### i. Definition

A Borrower facing Imminent Default is defined as a Borrower who is current or less than 30 Days past due on their Mortgage Payment and is experiencing a reduction in income

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1 or other hardship that will prevent them from making the Mortgage Payment during the  
2 month that it is due.

##### 3 **ii. Standard**

4 When the Borrower indicates a reduction of income or other hardship will prevent them  
5 from making the Mortgage Payment during the month that it is due, the Mortgagee must  
6 discuss the Borrower's circumstances to determine the appropriate Loss Mitigation  
7 Options.

##### 8 **iii. Required Documentation**

9 The Mortgagee must document the basis for the determination that the Borrower's  
10 financial condition will result in a Default in its Servicing File.

##### 11 **g. Early Default Intervention (08/19/2024)**

12 The Mortgagee must determine the Borrower's ability to make monthly Mortgage Payments  
13 and take loss mitigation action or commence foreclosure, if loss mitigation is not feasible,  
14 within six months of the date of Default, or within such additional time approved by HUD  
15 via Extensions and Variances Automated Requests System (EVARS).

16 The Mortgagee must notify each Borrower, co-signer, and any other party requiring notice by  
17 state law that the Mortgage is in Default.

##### 18 **i. Delinquent Mortgage Identification**

19 The Mortgagee must identify Delinquent Mortgages and their payment status to ensure  
20 appropriate servicing and collection actions are completed on a daily basis.

21 The Mortgagee must report the Delinquency/Default Status Codes that accurately reflect  
22 the severity of Default and Mortgagee action taken in SFDMS.

##### 23 **ii. Collection Communication Timeline [This section will be updated per the 24 Modernization of Engagement with Borrowers in Default ML.]**

##### 25 **(A) Definition**

26 The Collection Communication Timeline sets forth the servicing actions that  
27 Mortgagees must take when contacting a Borrower with a Delinquent Mortgage.

##### 28 **(B) Standard**

29 The Mortgagee must perform in a timely manner the servicing actions set forth in the  
30 following Collection Communication Timeline.

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Day	Mortgagee Action
1	Payment due date; no action required until the Mortgage becomes Delinquent.
10	The Mortgagee must begin attempts to contact Borrowers with a Delinquent Mortgage at risk of Early Payment Default or Re-Default in accordance with the <a href="#">Specialized Collection Techniques for Early Payment Defaults and Re-Defaults</a> section.
25	The Mortgagee must begin attempts to contact Borrowers with a Delinquent Mortgage in accordance with the <a href="#">Contact Efforts for Delinquent Borrowers</a> section.
31	The Mortgagee must <a href="#">report the delinquency to HUD</a> via SFDMS.
32-45	The Mortgagee must send the following: <ul style="list-style-type: none"><li>• <a href="#">Notice of Homeownership Counseling Availability</a>; and</li><li>• <a href="#">Servicemembers Civil Relief Act (SCRA) Notice Disclosure</a> (form <a href="#">HUD-92070</a>).</li></ul>
32-60	The Mortgagee must send the following: <ul style="list-style-type: none"><li>• <a href="#">Delinquency Notice Cover Letter</a>; and</li><li>• <i>Save Your Home: Tips to Avoid Foreclosure</i> (form <a href="#">HUD-2008-5-FHA</a>).</li></ul>
45	The Mortgagee should begin analysis to identify appropriate Loss Mitigation Options, if any.  If unable to reach the Borrower(s), the Mortgagee must perform an <a href="#">Occupancy Inspection</a> .
61	The Mortgagee must attempt a <a href="#">face-to-face interview</a> with the Borrower no later than this date, unless exempt under <a href="#">24 CFR § 203.604</a> .
90	The Mortgagee must <a href="#">report the appropriate Default Reason Code</a> for the Default in SFDMS.  The Mortgagee must have evaluated all Loss Mitigation Options to determine whether any are appropriate. The Mortgagee must reevaluate for Loss Mitigation each month thereafter.

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#### (C) Required Documentation

The Mortgagee must document in their Servicing File all communication efforts to reach the Borrower early in their delinquency.

#### iii. Communication Methods [This section will be updated per the Modernization of Engagement with Borrowers in Default ML.]

##### (A) Selecting Best Method of Communication

The Mortgagee must use the method or methods of communication most likely to receive a response from each Borrower and consider the Borrower's expressed preference for using certain methods of communication.



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1 The Mortgagee must effectively communicate with persons with hearing, visual, and  
2 other communications-related disabilities, including the use of auxiliary aids and  
3 services in accessible formats, and must take reasonable steps to provide meaningful  
4 access to persons with Limited English Proficiency (LEP), such as providing oral  
5 interpretation and/or written translation of vital documents.

##### 6 **(B) Electronic Methods of Communication**

7 The Mortgagee may use any acceptable electronic communications or telephone  
8 contact attempts to establish contact with the Borrower. Acceptable forms of  
9 electronic communication include:

- 10 • email;
- 11 • secure web portals (such as online account management tools accessible by  
12 Borrowers); and
- 13 • other reliable communication methods through which the Mortgagee has been  
14 able to effectively communicate with Borrowers in the past.

15 The Mortgagee must ensure that their electronic signature technology complies with  
16 all requirements of the Electronic Signatures in Global and National Commerce  
17 (ESIGN) Act, 15 U.S.C. § 7001 et seq. The Mortgagee must include within the  
18 electronic communication the Mortgagee's email address, telephone number, and/or  
19 website address.

#### 20 **iv. Specialized Collection Techniques for Early Payment Defaults and Re-Defaults**

##### 21 **(A) Definitions**

22 Early Payment Defaults refer to all Mortgages that become 60 Days Delinquent  
23 within the first six payments.

24 A Re-Default is a mortgage Default occurring within six months after reinstatement  
25 or the successful use of a Permanent Home Retention Option.

##### 26 **(B) Standard**

27 For Borrowers at risk of Early Payment Default or Re-Default, the Mortgagee must:

- 28 • commence contact by the 10<sup>th</sup> Day of delinquency to remind Borrowers of  
29 Mortgage Payment time frames;
- 30 • make a minimum of two attempts per week to contact the Borrower after the  
31 10<sup>th</sup> Day of delinquency and must vary the times and days of the week of  
32 contact attempts to maximize the likelihood of contacting the Borrower, until:
  - 33 ○ contact is established; or
  - 34 ○ the Mortgagee determines that the contact information is inaccurate or no  
35 longer in service; and

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- make reasonable efforts to obtain an alternate contact method and/or follow up with the Borrower using other methods of communication until contact is established.

If the Mortgagee is unable to establish contact, the Mortgagee must determine through an Occupancy Inspection if the Property is vacant or abandoned by the 45<sup>th</sup> Day of delinquency.

#### (C) Required Documentation

The Mortgagee must document in their Servicing File all specialized collection efforts to reach the Borrowers at risk of Early Payment Default or Re-Default.

#### v. Contact Efforts for Delinquent Borrowers

##### (A) Standard

For Borrowers with a Delinquent Mortgage, the Mortgagee must:

- commence contact by the 25th Day of delinquency;
- make a minimum of two attempts per week and must vary the times and days of the week of contact attempts to maximize the likelihood of contacting the Borrower until:
  - contact is established; or
  - the Mortgagee determines that the contact information is inaccurate or no longer in service; and
- make reasonable efforts to obtain an alternate contact method and/or follow up with the Borrower using other methods of communication until contact is established.

Promptly after establishing contact, the Mortgagee must determine whether the Borrower is occupying the Property, ascertain the reason for the delinquency, and inform the Borrower about the availability of Loss Mitigation Options.

If the Mortgagee is unable to establish contact, the Mortgagee must determine through an Occupancy Inspection if the Property is vacant or abandoned by the 45<sup>th</sup> Day of delinquency.

##### (B) Required Documentation

The Mortgagee must document in their Servicing File all communication efforts to reach a Borrower with a Delinquent Mortgage.

#### vi. Assigned Loss Mitigation Personnel

The Mortgagee must designate personnel to respond to the Borrower's inquiries and to assist them with Loss Mitigation Options no later than the 45<sup>th</sup> Day of delinquency.

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1 The Mortgagee must provide the contact information of their loss mitigation or customer  
2 assistance hotline, offering direct phone access to assigned loss mitigation personnel, in  
3 the [Delinquency Notice Cover Letter](#).

#### vii. Required Notices to Borrower by 45th Day of Delinquency

##### (A) Standard

6 Beginning on the 32<sup>nd</sup> Day, but no later than the 45<sup>th</sup> Day from the date payment was  
7 due, the Mortgagee must send a:

- 8 • [Notice of Homeownership Counseling Availability](#); and
- 9 • [Servicemembers Civil Relief Act \(SCRA\) Notice Disclosure](#) (form [HUD-  
10 92070](#)).

##### (1) Notice of Homeownership Counseling Availability

12 The Mortgagee must provide a Borrower with a Delinquent Mortgage with a  
13 notice describing the availability of housing counseling offered by HUD-  
14 approved housing counseling agencies. The notification must:

- 15 • inform the Borrower with a Delinquent Mortgage of the availability of  
16 housing counseling services provided by HUD-approved housing  
17 counseling agencies;
- 18 • be provided in accessible formats or languages when such Borrower  
19 communications have been requested by persons with disabilities and  
20 persons with LEP;
- 21 • provide instructions for locating a HUD-approved housing counseling  
22 agency in the Borrower's area and includes the HUD Housing Counseling  
23 Agency Locator toll-free telephone number (800) 569-4287, through  
24 which Borrowers can obtain a list of housing counseling agencies;
- 25 • provide instructions that HUD is prepared to accept calls from persons  
26 who are deaf or hard of hearing, as well as individuals with speech and  
27 communication disabilities. The Federal Communications Commission  
28 (FCC) has information on how to make an [accessible phone call](#); and
- 29 • describe housing counseling and the potential benefits of engaging in  
30 housing counseling.

##### (2) Servicemembers Civil Relief Act Notice Disclosure

32 The Mortgagee must send form [HUD-92070](#) for the required notice of  
33 servicemember rights to all Borrowers in Default on a residential Mortgage and  
34 must include the toll-free [Military OneSource](#) number to call if servicemembers  
35 or their dependents require further assistance.

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1                   **(B) Required Documentation**

2                   The Mortgagee must document in their **Servicing File** the dates on which it sent the  
3                   Notice of Homeownership Counseling Availability and the *SCRA Disclosure*. The  
4                   Mortgagee must be able to provide to HUD, upon request, the language in its Notice  
5                   of Homeownership Counseling Availability.

6                   **viii. Required Notices to Borrower by 60th Day of Delinquency**

7                   **(A) Standard**

8                   Beginning on the 32<sup>nd</sup> Day but no later than the 60<sup>th</sup> Day from the date the Mortgage  
9                   Payment was due, the Mortgagee must send the:

- 10                   • [Delinquency Notice Cover Letter](#); and  
11                   • *Save Your Home: Tips to Avoid Foreclosure* (form [HUD-2008-5-FHA](#)).

12                   **(1) Delinquency Notice Cover Letter**

13                   The Mortgagee must send the *Save Your Home: Tips to Avoid Foreclosure* with a  
14                   **Delinquency Notice** cover letter that includes:

- 15                   • the following information related to the Mortgage:  
16                   ○ number of late payments;  
17                   ○ total amount of any Late Charges incurred;  
18                   ○ the month of each late payment; and  
19                   ○ the original due date of each late payment;  
20                   • if applicable, a list of information or documentation the Mortgagee needs  
21                   to complete the loss mitigation analysis; and  
22                   • contact information for the Mortgagee's assigned loss mitigation  
23                   personnel to include, at a minimum, a toll-free telephone number and  
24                   information on how to locate a [HUD-approved housing counseling agency](#)  
25                   online or by calling HUD's interactive voice system at (800) 569-4287,  
26                   and that HUD is prepared to accept calls from persons who are deaf or  
27                   hard of hearing, as well as individuals with speech and communication  
28                   disabilities. The Federal Communications Commission (FCC) has  
29                   information on how to make an [accessible phone call](#).

30                   **(2) Save Your Home: Tips to Avoid Foreclosure**

31                   *Save Your Home: Tips to Avoid Foreclosure* (form [HUD-2008-5-FHA](#)) is  
32                   available in English, Spanish, Chinese, and Vietnamese. Mortgagees may  
33                   reproduce electronic versions of the form at their own expense.

34                   The Mortgagee may not change the contents of the form in any way.

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### (3) Resending Notices

The Mortgagee must resend the cover letter and accompanying *Save Your Home: Tips to Avoid Foreclosure* (form [HUD-2008-5-FHA](#)) at 45 Days Delinquent unless a new delinquency occurs less than six months after a prior notice and brochure was mailed.

### (4) Exception for Borrowers in Bankruptcy

The Mortgagee is not required to send the cover letter and *Save Your Home: Tips to Avoid Foreclosure* if the Borrower has filed bankruptcy before becoming 45 Days Delinquent, and, in the opinion of the Mortgagee's legal counsel, providing the cover letter and brochure would be a violation of the automatic stay.

The Mortgagee must send the cover letter and *Save Your Home: Tips to Avoid Foreclosure* once the automatic stay is lifted.

### (B) Required Documentation

The Mortgagee must document in their Servicing File the dates on which it sent the Delinquency Notice cover letter and *Save Your Home: Tips to Avoid Foreclosure*.

The Mortgagee must document a bankruptcy-related exception in the Servicing File.

## ix. Occupancy Inspections

### (A) Definitions

An Occupancy Inspection is a visual inspection of a mortgaged Property by the Mortgagee to determine if the mortgaged Property has become vacant or abandoned and to confirm the identity of any occupants.

An Occupancy Follow-Up is an attempt to communicate with the Borrower via letter, telephone, or other method of communication, other than on-site inspection, to determine occupancy when the Mortgage remains in Default after the initial inspection and the Mortgagee has not determined the Borrower's occupancy status.

### (B) Standard

If the Mortgagee is unable to reach the Borrower(s) by the 45<sup>th</sup> Day of delinquency, the Mortgagee must perform a visual inspection of the mortgaged Property to determine occupancy status.

### (1) Initial Occupancy Inspection

The Mortgagee must perform the initial Occupancy Inspection no later than the 60<sup>th</sup> Day of delinquency when:

- the Mortgage is in Default;

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- a payment has not been received within 45 Days of the due date; and
- efforts to reach the Borrower or occupant have been unsuccessful.

#### (2) Follow-Up Inspections

If the Mortgagee is unable to determine the Borrower's occupancy status through the initial Occupancy Inspection, the Mortgagee must perform an Occupancy Follow-Up.

If necessary, the Mortgagee must continue Occupancy Inspections every 25-35 Days from the last inspection until the occupancy status is determined.

#### (3) Occupancy Inspections during Bankruptcy

When payments are not submitted as scheduled by a Borrower in bankruptcy, the Mortgagee must contact either the bankruptcy trustee or the Borrower's bankruptcy attorney for information concerning the status of the Borrower, to determine if an Occupancy Inspection is needed.

The Mortgagee must continue to perform exterior-only visual inspections until the Default is cured, the Property is disposed of, or the bankruptcy court has granted approval for the Mortgagee to contact the Borrower or to take any required Property Preservation and Protection (P&P) actions.

If the Mortgagee determines that the Property is vacant or abandoned during the period in which the Mortgagee is prohibited from contacting the Borrower, the Mortgagee must note the following in the **Servicing File**:

- the date it made its determination; and
- that contact with the attorney or trustee has been made.

#### (4) Determination that the Property is Vacant or Abandoned

If the Mortgagee determines through an Occupancy Inspection that the Property is vacant or abandoned, the Mortgagee must:

- send a letter, via a method providing delivery confirmation, to Borrowers at the property address informing them of the Mortgagee's determination that the Property is vacant or abandoned. This letter must include the Mortgagee's contact information;
- commence [Vacant Property Inspections](#); and
- take appropriate [Property P&P](#) actions to secure and maintain the Property.

If the Mortgagee fails to inspect the Property within the required time period, or fails to discover the vacancy, the vacancy date will be the last date on which the Mortgagee should have performed the inspection. If the Property becomes vacant

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1 prior to an inspection and the Mortgagee has knowledge of such vacancy, then the  
2 date the Property became vacant is the vacancy date.

#### 3 (C) Required Documentation

4 The Mortgagee must retain in the **Servicing File**:

- 5 • the dates and methods of Occupancy Follow-Up and vacancy letters;
- 6 • evidence of payment to the inspector;
- 7 • copies of all completed inspection reports; and
- 8 • any accompanying follow-up documentation for Occupancy Inspections.

9 For all Occupancy Inspections, the Mortgagee must retain in the inspection report:

- 10 • date of the inspection;
- 11 • identity of the individual inspector and the inspection company;
- 12 • the general condition of the Property;
- 13 • any actions taken to preserve and protect the Property;
- 14 • photographs with a date and time stamp printed on each and labeled  
15 accordingly with a description of the contents of each photograph;
- 16 • occupancy status of the Property; and
- 17 • answers to the following questions, where applicable:
  - 18 ○ Is the house locked?
  - 19 ○ Is the grass mowed and/or are shrubs trimmed?
  - 20 ○ Is there any apparent damage?
  - 21 ○ Is any exterior glass broken?
  - 22 ○ Are there any apparent roof leaks?
  - 23 ○ Does the house contain Personal Property and/or debris?
  - 24 ○ Are any doors or windows boarded?
  - 25 ○ Is the house winterized?
  - 26 ○ Are there any repairs necessary to adequately preserve and protect the  
27 Property?

#### 28 x. Face-to-Face Interviews [This section will be updated per the Modernization of 29 Engagement with Borrowers in Default ML.]

#### 30 (A) Standard

31 The Mortgagee must have a face-to-face interview with the Borrower or make a  
32 reasonable effort to arrange a face-to-face interview no later than the 61<sup>st</sup> Day of  
33 delinquency, unless exempt.

#### 34 (1) Face-to-Face Meetings Not Required

35 The Mortgagee is not required to conduct a face-to-face interview if:

- 36 • the Borrower does not live in the mortgaged Property;

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- the holding Mortgagee, servicing Mortgagee, or branch office of either is not located within 200 miles of the mortgaged Property (unless the Mortgage is insured under [Section 248](#));
- the Borrower has clearly indicated that they will not cooperate with a face-to-face interview; or
- the Borrower's payment is current due to an agreed-upon Repayment Plan or Forbearance.

##### (2) Reasonable Effort in Arranging a Face-to-Face Interview

The Mortgagee must send to the Borrower via Certificate of Mailing or Certified Mail a letter providing information on:

- the availability of face-to-face interviews; and
- how to schedule the interview.

The Mortgagee must also attempt to contact the Borrower at the mortgaged Property to provide information on the availability of face-to-face interviews. The Mortgagee may use a third-party vendor to establish this contact with the Borrower and to schedule the Borrower's face-to-face interview with a Mortgagee representative.

##### (3) Mortgagee Representative Authority

The Mortgagee must ensure that the employee representing the Mortgagee at face-to-face interviews has the authority to propose and accept reasonable Repayment Plans. Where a Mortgagee's representative exceeds their authority by agreeing to a Repayment Plan at the time of the face-to-face interview, the Mortgagee must still accept the Repayment Plan agreed to by its representative, without regard as to whether the representative overstepped their authority.

##### (B) Required Documentation

The Mortgagee must document in the **Servicing File**:

- the reason the face-to-face meeting is not required, if exempt;
- the dates and methods of its attempts at arranging a face-to-face interview; and
- the date of its face-to-face interview with the Borrower.

#### xi. Vacant Property Inspections

##### (A) Definitions

A First-Time Vacant (FTV) Property Inspection is the first inspection performed by the Mortgagee to ascertain the condition of a vacant or abandoned Property.

A Follow-up Vacant Property Inspection is an inspection by the Mortgagee of a vacant or abandoned Property that occurs every 25-35 Days after the FTV Property



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1 Inspection until the mortgage Default is cured or until conveyance of the Property to  
2 HUD.

#### 3 **(B) Standard**

4 The Mortgagee must take reasonable actions to protect the value of the security,  
5 including performing the following required inspections for vacant or abandoned  
6 Properties.

7 The Mortgagee is liable for any damage resulting from the Mortgagee's failure to  
8 preserve and protect the Property unless the Mortgagee can prove that the damage  
9 occurred prior to the date the Property became vacant.

#### 10 **(1) First-Time Vacant Property Inspection**

11 The Mortgagee must perform the FTV Property Inspection as soon as reasonably  
12 practicable, but no more than 15 business days following the determination that  
13 the Property is vacant and/or abandoned.

14 The Mortgagee must:

- 15 • [secure the Property](#), if possible;
- 16 • upload documentation and photographs showing any damage resulting  
17 from the Borrower that is identified using the FTV Property Inspection  
18 into P260;
- 19 • pressure-test all water supply and upload photographs of the results of the  
20 test into P260;
- 21 • address all imminent and urgent safety hazards and determine what repairs  
22 are required to prevent damage to the Property; and
- 23 • photograph the primary exterior facades and interior areas of the primary  
24 and secondary Structures, including any damage found.

#### 25 **(2) Follow-up Vacant Property Inspections**

26 The Mortgagee must perform Follow-up Vacant Property Inspections every 25-35  
27 Days after the FTV Property Inspection until the mortgage Default is cured or  
28 until conveyance of the Property to HUD. In areas of high vandalism or where  
29 local ordinances require more frequent Follow-up Vacant Property Inspections,  
30 Mortgagees may perform Follow-up Vacant Property Inspections more frequently  
31 than HUD's 25-35 Day requirement and request reimbursement for these  
32 inspection costs.

33 At each inspection, the Mortgagee must:

- 34 • photograph the overall condition of the interior and exterior of the primary  
35 and all secondary Structures;
- 36 • monitor the security and maintenance of the Property;

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- 1                   • assess and manage damage that requires repair, replacement, or removal;
- 2                                   and
- 3                   • address and resolve all emergency repairs.

#### 4                   **(C) Required Documentation**

5                   For all Vacancy Inspections, the Mortgagee must retain in the **Servicing File**:

- 6                   • evidence of payment to the inspector;
- 7                   • any police reports and/or letters from a local law enforcement agency
- 8                                   evidencing the need for additional protective measures; and
- 9                   • copies of all completed inspection reports that must include:
  - 10                   ○ date of the inspection;
  - 11                   ○ identity of the individual inspector and the inspection company;
  - 12                   ○ the general condition of the Property;
  - 13                   ○ any actions taken to protect and preserve the Property;
  - 14                   ○ photographs with a date and time stamp printed on each and labeled
  - 15                                   accordingly with a description of the contents of each photograph;
  - 16                   ○ occupancy status of the Property; and
  - 17                   ○ answers to the following questions, where applicable:
    - 18                   ▪ Is the house locked?
    - 19                   ▪ Is the grass mowed and/or are shrubs trimmed?
    - 20                   ▪ Is there any apparent damage?
    - 21                   ▪ Is any exterior glass broken?
    - 22                   ▪ Are there any apparent roof leaks?
    - 23                   ▪ Does the house contain Personal Property and/or debris?
    - 24                   ▪ Are any doors or windows boarded?
    - 25                   ▪ Is the house winterized?
    - 26                   ▪ Are there any repairs necessary to adequately preserve and protect the
    - 27                                   Property?

28                   The Mortgagee must document all Property P&P activities performed on vacant

29                   Properties.

#### 30                   **xii. Use of Early Default Intervention Tools**

31                   As part of early default intervention, the Mortgagee must review the Borrower for the

32                   Early Default Intervention Tools.

#### 33                   **h. Loss Mitigation Program**

34                   HUD's Loss Mitigation Options are intended to minimize economic impact to the MMIF and

35                   to avoid foreclosure, when possible. The Loss Mitigation Options are:

- 36                   • Repayment Plan;
- 37                   • Forbearance;
- 38                   • Loan Modification;
- 39                   • Partial Claim;

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- Combination Loan Modification and Partial Claim;
- Payment Supplement;
- Outside of the Waterfall Loan Modification (OWL);
- Equity Saver Sale (ESS);
- Pre-Foreclosure Sale (PFS); and
- Deed-in-Lieu (DIL) of Foreclosure.

In implementing HUD's Loss Mitigation Program, the Mortgagee must:

- consider all reasonable means to address delinquency at the earliest possible time;
- adhere to the requirements for communication with Borrowers in Default as set out in the [Collection Communication Timeline](#);
- utilize HUD's Loss Mitigation Options to avoid foreclosure, when feasible; and
- re-evaluate each Delinquent Mortgage for Loss Mitigation Options, as required.

When reviewing Borrowers for Loss Mitigation Options, a streamlined or refinanced Mortgage on the same Property and by the same Borrowers is not considered a new Mortgage for seasoning requirements.

The Mortgagee may offer eligible Borrowers Loss Mitigation Options in accordance with program-specific procedures for:

- Section 203(q) Mortgages, Mortgages on Property in Allegany Reservation of Seneca Indians;
- [Section 248 Mortgages](#) on Indian Land insured pursuant to Section 248 of the National Housing Act; and
- [Section 247 Mortgages](#), Mortgages on Hawaiian Home Lands insured pursuant to Section 247 of the National Housing Act.

##### **i. Definitions**

For the purposes of loss mitigation, the following definitions apply:

Borrower refers to the original Borrower who signs the Note and their heirs, executors, administrators, assigns, and approved substitute Borrowers. This includes any Borrower who is occupying or not occupying the Property.

Financial Hardship refers to an increase in living expenses or a loss of income as attested by the Borrower.

##### **ii. Servicemember Status**

The Mortgagee must offer eligible servicemember Borrowers mortgage protections under the SCRA and [Servicing FHA-Insured Mortgages for Servicemember-Borrowers](#).

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### iii. Standard

#### (A) Eligibility to Participate in HUD Programs

The Mortgagee must verify that the Borrowers are eligible to participate in HUD's Loss Mitigation Program.

To be eligible to participate in HUD's Loss Mitigation Program, the Borrower:

- may not own other real estate subject to FHA insurance, except within the stated [exceptions](#);
- has not been the Borrower, except through inheritance or as a co-signer only, on prior loans on which an FHA claim has been paid within the past three years; and
- for purposes of a **Loan Modification, Partial Claim, Combination Loan Modification and Partial Claim, or Payment Supplement**:
  - **must** not be debarred, suspended or subject to a HUD Limited Denial of Participation (LDP) as determined in accordance with [Excluded Parties](#) requirements; and
  - may not have unresolved delinquent Federal Debt as determined in accordance with [Borrower Ineligibility Due to Delinquent Federal Non-Tax Debt](#) requirements. The Delinquent FHA-insured Mortgage associated with the Loss Mitigation does not constitute a disqualifying delinquent Federal Debt.

#### (1) Occupancy

##### (a) Definitions

An Owner-Occupant Borrower refers to a Borrower residing in the Property secured by the FHA-insured Mortgage as a Principal Residence.

A Non-Occupant Borrower refers to a Borrower on a Mortgage securing a Property that is not occupied by any Borrower **or is not the Principal Residence**.

##### (b) Standard

The Mortgagee must consider **Owner-Occupant Borrowers and Non-Occupant Borrowers for all Loss Mitigation Options**.

#### (2) Non-Borrowers Who Acquired Title through an Exempted Transfer

The Mortgagee may consider Home Retention Options for a non-borrower who acquires title to a Property securing an FHA-insured Mortgage if the Mortgage is not due and payable pursuant to the [Garn-St. Germain Depository Institutions Act](#), and that the non-borrower:

- will occupy the home as a Principal Residence;

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- meets the Assumption [Underwriting Review](#) (II.A.8.n.v) requirements;
- meets the criteria for loss mitigation assistance;
- successfully completes a six month Trial Payment Plan; and is willing to [assume personal liability](#) for repayment of the Mortgage in accordance with the agreed loss mitigation terms.

#### (B) 90-Day Review

A Mortgagee is required to complete an evaluation of a Defaulted Mortgage for appropriate Loss Mitigation Options before four monthly installments are due and unpaid and send a written [Notice to Borrower](#) with the determination of eligibility.

#### (C) Required Documentation

The Mortgagee must retain in the Servicing File and the Claim File, if applicable, documentation evidencing that the Borrower is eligible to participate in an FHA transaction, and a copy of the Notice to Borrower, and document efforts to reach the Borrower in Default in advance of the 90-Day Review deadline.

#### iv. Evaluation of Borrower for Loss Mitigation Assistance

##### (A) Definition

A Complete Loss Mitigation Request is a request for loss mitigation assistance that contains all information from the Borrower [required](#) to evaluate [all](#) Loss Mitigation Home Retention Options and Home Disposition Options.

##### (B) Standard

The Mortgagee must ensure that the Complete Loss Mitigation Request includes:

- the reason for Financial Hardship;
- Borrower occupancy status;
- a statement from the Borrower attesting that the Borrower is not aware of legal or title issues that would impact a Loss Mitigation Option from being completed; and
- documentation that may impact a Mortgagee's ability to provide a Loss Mitigation Option for Servicemembers, or [Non-Borrowers Who Acquired Title through an Exempted Transfer](#).

Mortgagees must obtain the Borrower's reason for Financial Hardship and documentation, as required in the table below. The Mortgagee may obtain the reason for Financial Hardship verbally, electronically, or in writing.

Type of Hardship	Required Hardship Documentation
Unemployment	Not required

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Type of Hardship	Required Hardship Documentation
Reduction in income: a hardship that has caused a decrease in your income due to circumstances outside your control (e.g., elimination of overtime, reduction in regular working hours, a reduction in base pay)	Not required
Increase in housing-related expenses: a hardship that has caused an increase in your housing expenses due to circumstances outside your control (e.g., uninsured losses, increased property taxes, HOA special assessment)	Not required
Disaster (natural or man-made) impacting the Property or Borrower's place of employment	Not required
Long-term or permanent disability, or serious illness of a Borrower/co-Borrower or dependent Family Member	Written statement from the Borrower, or other documentation verifying disability or illness Note: Detailed medical information is not required, and information from a medical provider is not required
Divorce or legal separation	Final divorce decree or final separation agreement <b>OR</b> Recorded quitclaim deed
Separation of Borrowers unrelated by marriage, civil union, or similar domestic partnership under applicable law	Recorded quitclaim deed <b>OR</b>
	Legally binding agreement evidencing that the non-occupying Borrower or co-Borrower has relinquished all rights to the Property
Death of Borrower or death of either the primary secondary wage earner	Death certificate <b>OR</b>
	Obituary or newspaper article reporting the death
Distant employment transfer/relocation	<b>For active duty service members:</b> Permanent Change of Station (PCS) orders or letter showing transfer.
	<b>For employment transfers/new employment:</b> Copy of signed offer letter or notice from employer showing transfer to a new location or written explanation if employer documentation not applicable, <b>AND</b>
	Documentation that reflects the amount of any relocation assistance provided (not required for those with PCS orders)

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The Borrower is not required to provide financial documentation to be eligible for a Loss Mitigation Option. The Mortgagee must not use any financial documentation about the Borrower to disqualify the Borrower from a Loss Mitigation Option.

The Mortgagee must not condition the use of a Loss Mitigation Option on the receipt of a Borrower's cash contribution or a Borrower's payment of fees or charges.

For loss mitigation requests received after the initiation of foreclosure, the Mortgagee must evaluate and respond to Complete Loss Mitigation Requests according to the time frame requirements in [Loss Mitigation during the Foreclosure Process](#).

#### (C) Required Documentation

The Mortgagee must document in the Servicing File and the Claim File, if applicable, the Complete Loss Mitigation Request and the date of receipt.

#### v. HUD's Loss Mitigation Option Waterfall

The Mortgagee must evaluate Borrowers using the Loss Mitigation Option Waterfall below.

Loss Mitigation Waterfall Options			
Question	Decision Point	Yes (If the Loss Mitigation Option cannot be offered, proceed to the next Question)	No
1	Is the Borrower no more than 120 Days* in Default and able to repay Arrearages over a set period of no more than 18 months? *may be extended for Mortgages that cannot be modified	Review for a Repayment Plan	Proceed to Question 2
2	Does the Borrower require a period of reduced or suspended payments before they are able to resume payments?	Review for a Forbearance	Proceed to Question 3
3	Does the Borrower attest they can resume making their current Mortgage Payments?	Review for a <a href="#">Standalone Partial Claim</a>	Proceed to Question 4
4	Can a Standalone Loan Modification achieve the target payment?	Review for a <a href="#">Standalone Loan Modification</a>	Proceed to Question 5

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<b>Loss Mitigation Waterfall Options</b>			
<b>Question</b>	<b>Decision Point</b>	<b>Yes</b> (If the Loss Mitigation Option cannot be offered, proceed to the next Question)	<b>No</b>
5	Can a Combination Loan Modification and Partial Claim achieve the target payment?	Review for a <u>Combination Loan Modification and Partial Claim</u>	Proceed to Question 6
6	Can a Payment Supplement achieve a temporary target payment reduction?	Review for a Payment Supplement	Proceed to Question 7
7	Does the Borrower indicate that the current market value of the Property exceeds the amount owed on the Mortgage?	Review for an ESS	Proceed to Question 8
8	Does the Borrower meet the requirements to participate in a <u>Pre-Foreclosure Sale (PFS)</u> ?	Review for a PFS	Proceed to Question 9
9	Does the total outstanding debt remain uncurable and was an attempt made to market the Property under the PFS Program?	Review for a <u>Deed-in-Lieu</u>	Foreclosure

#### vi. Notice to Borrower after Loss Mitigation Review

The Mortgagee must send a written notice to the Borrower after an evaluation of the Borrower for Loss Mitigation Option eligibility, which indicates:

- the Mortgagee's determination of the Borrower's eligibility for a Loss Mitigation Option and which Loss Mitigation Option, if any, the Mortgagee will offer to the Borrower;
- the amount of time in which the Borrower must accept or reject an offer of a Loss Mitigation Option;
- the actual reason or reasons they have been denied for any HUD Loss Mitigation Option;
- the process for appeals or escalation of cases;
- the process and time frame for submission of additional information that may impact the Mortgagee's evaluation;
- the Mortgagee's points of contact; and
- if loss mitigation is denied, rejected by the Borrower, unsuccessful, or unable to be considered due to the Borrower's failure to **complete the documents to**



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1 complete the Loss Mitigation Option or to provide additional information  
2 requested by the Mortgagee, and any applicable appeal period has expired:

- 3 ○ the Borrower's Mortgage may be included in a Single Family Loan Sale  
4 (SFLS); or  
5 ○ the Borrower's Mortgage may be foreclosed upon.

#### vii. Loss Mitigation Agreements

##### (A) Definition

8 A Loss Mitigation Agreement refers to all Permanent Home Retention or Home  
9 Disposition Options documents that require execution by the Borrower.

##### (B) Standard

11 The Mortgagee must ensure that Loss Mitigation Agreements are executed by all  
12 parties necessary to ensure:

- 13 • that HUD's first lien position is preserved; and  
14 • that the agreement is enforceable under state and local law.

15 The Mortgagee may exclude certain signatories to the agreement or waive the need  
16 for a quit claim deed because of divorce, legal separation, domestic violence, mental  
17 incapacity, military deployment, or abandonment if the Mortgagee can ensure HUD's  
18 first lien position and the agreement is enforceable under state and local law.

##### (C) Mortgagee Signature

20 Where a Mortgagee signature is required on a Loss Mitigation Agreement, the  
21 servicing Mortgagee with this delegated authority may provide this signature.

##### (D) Authorized Third Parties

23 When a Loss Mitigation Agreement is to be signed by an Authorized Third Party with  
24 authority to act on behalf of the Borrower, the Mortgagee must include a copy of that  
25 party's [authorization](#) in the Servicing File and Claim File, if applicable.

##### (E) Electronic Signatures

27 The use of electronic signatures is voluntary. HUD will accept an electronic signature  
28 conducted in accordance with the [Policy on Use of Electronic Signatures](#) on HUD  
29 Loss Mitigation documents requiring signatures, unless otherwise prohibited by law.

##### (F) No Waiver of Rights

31 The Mortgagee must not include any language in loss mitigation documents that  
32 requires Borrowers to waive their rights under state or federal law or under the

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1 mortgage contract as a condition for consideration, approval, or implementation of a  
2 Loss Mitigation Option.

#### 3 **viii. Loss Mitigation during Bankruptcy Proceedings**

##### 4 **(A) Standard**

5 The Mortgagee must comply with and seek relief, if appropriate, from the automatic  
6 stay. The Mortgagee may review Borrowers with active Chapter 7 or Chapter 13  
7 bankruptcy cases for Loss Mitigation Options to the extent that such loss mitigation  
8 does not violate federal bankruptcy laws or orders of the bankruptcy court or  
9 bankruptcy trustee.

##### 10 **(1) Eligibility for Loss Mitigation**

11 The Mortgagee may consider Loss Mitigation Options for those Borrowers who  
12 have received a Chapter 7 bankruptcy discharge and did not reaffirm the FHA-  
13 insured mortgage debt under applicable law.

##### 14 **(2) Bankruptcy Proceedings for which Borrower Has an Attorney**

15 The Mortgagee must, upon receipt of notice of a bankruptcy filing, send  
16 information to the Borrower's attorney indicating that Loss Mitigation Options  
17 may be available, and provide:

- 18 • requirements for additional financial information documentation;
- 19 • applicable time frames;
- 20 • Mortgagee contact information; and
- 21 • additional instructions to facilitate workout discussions, as appropriate.

22 The Mortgagee must ensure that this communication does not infer that it is in  
23 any way an attempt to collect a debt.

##### 24 **(3) Bankruptcy Proceedings for which Borrower does Not Have an Attorney** 25 **(Bankruptcy Pro Se)**

26 Where the Borrower filed the bankruptcy pro se, the Mortgagee must send  
27 information indicating that Loss Mitigation Options may be available to the  
28 Borrower, with a copy to the bankruptcy trustee.

29 The Mortgagee must ensure that this communication does not infer that it is in  
30 any way an attempt to collect a debt.

##### 31 **(B) Required Documentation**

32 The Mortgagee must retain documentation supporting efforts to comply with or seek  
33 relief from automatic stays and documentation supporting any delays in meeting  
34 required HUD timelines in the Servicing File and the Claim File.

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#### ix. Escalated Cases

##### (A) Definition

Escalated Cases are Borrower inquiries and complaints requiring additional Mortgagee review because they include allegations of:

- improper analysis of Borrower information or denials of Loss Mitigation Options;
- foreclosures initiated or continued in violation of HUD's policy; or
- other violations of HUD policy.

##### (B) Standard

The Mortgagee must escalate cases to its designated escalation team at the request of:

- HUD staff; or
- the Borrower or Borrower's Authorized Third Party representative.

##### (C) Escalation Processes

The Mortgagee must escalate and respond to cases in accordance with their written internal policies.

The Mortgagee must ensure that, at a minimum, the policies include the following:

- which staff members will be responsible for resolving escalated cases. These staff members must:
  - not be the same staff members responsible for the first evaluation of the loss mitigation application; and
  - have access to the Borrowers' Servicing Files;
- provide for timely responses to escalated cases as follows:
  - within seven Days of categorizing a Borrower's inquiry or complaint as an escalated case, the Mortgagee should notify the Borrower in writing that their inquiry and/or complaint has been escalated and that a resolution to their case will be provided no later than 30 Days from the date of escalation; and
  - if the Mortgagee is unable to resolve an escalated case within 30 Days, the Mortgagee must send the Borrower written updates on the status of their case every 15 Days until the case is resolved;
- provide Borrowers with the direct contact information of the department and/or staff member responsible for resolving its escalated cases;
- include methodologies for assessing a Servicer's compliance with its escalation policies. These methodologies must be included in a Mortgagee's Quality Control (QC) Plan; and
- detail the Mortgagee's process for resolving escalated cases and managing foreclosure activity when a foreclosure sale has been scheduled.

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###### x. Required Documentation

The Mortgagee must document their compliance with HUD's Loss Mitigation Program in the Servicing File and the Claim File, if applicable, including:

- all loss mitigation actions, including all efforts to contact the Borrowers; and
- all documentation used to analyze and make loss mitigation decisions and to confirm compliance with loss mitigation requirements.

###### i. Loss Mitigation Home Retention Options

###### i. Definition

The Loss Mitigation Home Retention Options are:

- Repayment Plans;
- Forbearances;
- Standalone Partial Claims;
- Standalone Loan Modifications;
- Combination Loan Modifications and Partial Claims;
- Payment Supplements; and
- Outside of the Waterfall Loan Modifications (OWLs).

Early Default Intervention Tools refer to Repayment Plans and Forbearances.

Permanent Home Retention Options refer to Standalone Partial Claims, Standalone Loan Modifications, Combination Loan Modifications and Partial Claims, and Payment Supplements.

Arrearages refers to amounts needed to bring the Mortgage current and must only include:

- unpaid accrued interest;
- Mortgage advances for escrow items;
- projected escrow shortage amount; and
- allowable legal fees and foreclosure and bankruptcy costs for work performed for the current Default episode as of the date of the foreclosure cancellation and not higher than the fees and costs HUD has identified as customary and reasonable.

###### ii. Early Default Intervention Tools

###### (A) Repayment Plans

###### (1) Definitions

A Repayment Plan allows a Borrower to resume their Mortgage Payment after a Delinquency and includes an additional amount required to repay the Arrearages, as calculated in Appendix 4.0 FHA Home Retention Options Calculations – Part A: Arrearages, Step 2, over a specific period to reinstate the Mortgage.

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1 A Repayment Plan Agreement is a written document that provides the Borrower  
2 with the terms of the plan to reinstate the Delinquent Mortgage.

#### 3 **(2) Standard**

4 The Mortgagee must review the Borrower for a Repayment Plan if the Borrower  
5 affirms the monthly installment amount required under the terms of the  
6 Repayment Plan Agreement is affordable.

7 Prior to providing the Repayment Plan Agreement, the Mortgagee must inform  
8 the Borrower that they may be eligible for a Permanent Home Retention Option  
9 that may reduce the Mortgage Payment.

10 The Mortgagee must ensure the term of the Repayment Plan does not exceed 18  
11 months.

12 The Mortgagee must suspend or terminate any foreclosure action upon approval  
13 of a Repayment Plan in accordance with the requirements for [Terminating](#)  
14 [Foreclosure Proceedings for Loss Mitigation](#).

15 Repayment Plans are not eligible for Mortgagee incentive payments.

#### 16 **(3) Borrower Qualifications**

17 The Mortgagee must ensure the Borrower attests they can make the Mortgage  
18 Payment under the Repayment Plan.

19 The Mortgagee must ensure that the Borrower's Arrearages do not exceed:

- 20 • four months Delinquent PITI; or
- 21 • 12 months Delinquent PITI for:
  - 22 o Mortgages funded in connection with mortgage revenue bonds that are
  - 23 restricted by the Internal Revenue Code (IRC) and cannot extend the
  - 24 term of a Mortgage, or the interest rate cannot be modified; or
  - 25 o Borrowers who received a Permanent Home Retention Option in the
  - 26 past 18 months.

27 Borrowers who failed a TPP for a Permanent Home Retention Option during the  
28 current Default episode are not eligible for a Repayment Plan.

#### 29 **(4) Repayment Plan Agreement**

30 The Mortgagee must provide the Borrower with the Repayment Plan Agreement  
31 at least 15 Days before the date the first installment is due. The Borrower is not  
32 required to sign and return the Repayment Plan Agreement.

33 The Mortgagee must ensure the Repayment Plan Agreement provides the  
34 following information:

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- the specific months for which the account is Delinquent and the total Arrearage that accrued prior to the beginning of the Repayment Plan;
- the term of the plan in months;
- the monthly installment amount required, which must include:
  - o the current monthly installment; and
  - o the additional amount required to cover Arrearages;
- late fees will not be assessed while the Borrower is performing under the terms of the Repayment Plan;
- if the escrow amount changes, the monthly installment may also change during the Repayment Plan;
- the Borrower may contact the Mortgagee to determine if other Loss Mitigation Options or an adjustment to the Repayment Plan is available if their financial circumstances change;
- the Borrower may pre-pay at any time; and
- remittance of the initial monthly installment in an amount equal to or greater than the amount required under the plan is considered the Borrower's acceptance of the Repayment Plan Agreement.

##### **(5) Repayment Plan Failure**

The Borrower has failed a Repayment Plan if:

- the Mortgagee becomes aware the Property has been permanently vacated or abandoned;
- the Borrower does not make a scheduled monthly installment by the last Day of the month the installment was due; or
- the Borrower informs the Mortgagee that the terms of the Repayment Plan Agreement will not be fulfilled.

The Mortgagee must apply remaining funds in suspense, if any, to the Borrower's account in accordance with [Application of Payments](#).

If the Repayment Plan fails, the Mortgagee must approve another Loss Mitigation Option or initiate foreclosure. HUD provides an automatic 90-Day extension during which the Mortgagee must take one of these actions.

##### **(6) Required Documentation**

The Mortgagee must retain the Repayment Plan Agreement in the Servicing File and the Claim File.

#### **(B) Forbearance**

##### **(1) Definition**

A Forbearance allows for reduced or suspended monthly Mortgage Payments for a specified period.

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### (2) Standard

The Mortgagee may provide an initial Forbearance for a period of one to three months. After the initial Forbearance period, the Mortgagee must contact the Borrower monthly to verify continued eligibility and adjust the terms of the agreement if there is a change in financial circumstances.

For Borrowers impacted by a Presidentially-Declared Major Disaster Area (PDMDA) the Mortgagee must review the Borrower for a [Disaster Forbearances for Borrowers in PDMDAs](#).

The Mortgagee may offer an initial Forbearance to a Borrower when:

- the Borrower attests they have not resolved the Financial Hardship;
- the first legal action to initiate foreclosure has not been completed; or
- the Forbearance period(s) will not result in an accrued Arrearage exceeding 12 months Delinquent PITI.

The maximum Forbearance per Default episode is 12 months, provided the accrued Arrearage does not exceed the equivalent of 12 months Delinquent PITI for the duration of the plan. For Graduated Payment Mortgages (GPM) and Growing Equity Mortgages (GEM), this will be calculated by multiplying 12 times the monthly payments due on the date of Default.

Accrued Arrearages during a PDMDA Forbearance within the same Default episode do not count against the 12-month Delinquent PITI maximum.

The Mortgagee may reduce, suspend, or both, the required monthly Mortgage Payment for the Forbearance period.

The Mortgagee may offer additional Forbearance periods for one to three months, where:

- the eligibility for a Forbearance continues to be met; and
- the Servicing File reflects the Borrower affirms the continued need for a Forbearance prior to each subsequent period.

Forbearances are not eligible for loss mitigation incentive payments.

### (3) Forbearance Agreement

The Mortgagee must provide the Forbearance Agreement to the Borrower within 15 Days from the date of approval of the initial Forbearance period and must provide an updated Forbearance Agreement for each subsequent Forbearance period. The Borrower is not required to sign and return the Forbearance Agreement.

The Mortgagee must ensure the Forbearance Agreement provides the following information:

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- the term of the plan in months;
- the monthly installment amount required, if any;
- late fees will not be assessed during the Forbearance;
- the Borrower should contact the Mortgagee to determine if other Loss Mitigation Options are available if their financial circumstances change; and
- the Borrower may pre-pay at any time.

#### **(4) Payment Application**

The Mortgagee must place payments submitted by the Borrower during the Forbearance period in a suspense account which is to be identified as belonging to the Borrower. When the suspense funds total a full monthly payment, the Mortgagee must apply the payment to the Borrower's account in accordance with HUD's [Partial Payments for Mortgages in Default](#) guidance and any other applicable requirements.

If the Borrower does not complete the terms of the Forbearance, all funds held in suspense must be applied to the Borrower's account.

#### **(5) Expiration of Forbearance Agreement**

During the month in which the Forbearance Agreement is to expire, the Mortgagee must contact the Borrower to determine if the Borrower qualifies for:

- an additional period of Forbearance but not allowing for more than 12 months of Delinquent PITI;
- a Repayment Plan; or
- a permanent Loss Mitigation Option.

#### **(6) Forbearance Failure**

A Forbearance is considered failed if the Borrower:

- abandons the Property;
- informs the Mortgagee that the terms of the Forbearance Agreement will not be fulfilled; or
- fails to perform under the terms of the Forbearance Agreement for 60 Days without any advisement to the Mortgagee of any problems that prevented the Borrower from complying with the terms of the agreement.

If the Forbearance fails, HUD provides an automatic 90-Day extension for the Mortgagee to approve another Loss Mitigation Option or commence or recommence foreclosure.



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###### (7) Required Documentation

The Mortgagee must retain in the Servicing File and the Claim File, if applicable, a copy of the Forbearance Agreement and each subsequent Forbearance Agreement.

###### iii. Permanent Home Retention Options

Prior to providing a Borrower with a Permanent Home Retention Option, the Mortgagee must explain to the Borrower:

- the different Early Default Intervention Tools, Permanent Home Retention Options, and Home Disposition Options, including:
  - o the Borrower's responsibilities under each; and
  - o the repercussions if the Borrower does not meet their responsibilities;
- the Borrower will not be eligible to receive more than one Permanent Home Retention Option in an 18-month period except in cases of natural disasters;
- if the Borrower qualifies for the Standalone Partial Claim, they may also be eligible for a Permanent Home Retention Option that may reduce the Mortgage Payment; and
- that a TPP will be required and the documents for the Permanent Home Retention Option will be required to be executed after the TPP to finalize the option.

###### (A) Standard Eligibility

The Mortgagee must ensure the following requirements are met in addition to all requirements for the appropriate Permanent Home Retention Option.

###### (1) Mortgage Status

The Mortgagee must ensure that:

- at least six months have elapsed since the date of the first payment on the original Mortgage, as evidenced on HUD's Neighborhood Watch system, and a minimum of four Mortgage Payments have been paid by the Borrower on the current Mortgage, except for Disaster Home Retention Options;
- the Mortgage is in Default or Imminent Default;
- any foreclosure action is suspended or terminated in accordance with the requirements for [Terminating Foreclosure Proceedings for Loss Mitigation](#); and
- three or more full monthly payments are due and unpaid (i.e., 61 Days or more past due) when the Permanent Home Retention Option is approved.

###### (2) Borrower Qualifications

The Mortgagee must ensure that the Borrower:

- attests that the Default or Imminent Default is due to a Financial Hardship;

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- attests that they can resume making their current Mortgage Payment or indicates they require payment reduction;
- has not executed an agreement for a Permanent Home Retention Option in the past 18 months at the time the Permanent Home Retention Option is approved, except:
  - o a Borrower who received a PDMDA Disaster Home Retention Option or a COVID-19 Home Retention Option in the past 18 months remains eligible for a Permanent Home Retention Option; and
  - o a Borrower impacted by a disaster associated with a PDMDA remains eligible for a PDMDA Home Retention Option when a previous Home Retention Option or PDMDA Home Retention Option was executed within the past 18 months;
- completes the Borrower Affordability Attestation for the Permanent Home Retention Option; and
- has successfully completed a TPP.

#### **(3) Property Condition**

The Mortgagee must conduct any review it deems necessary, including a property inspection, when:

- the Mortgagee receives notice from the Borrower, local government, or other third parties regarding adverse property condition; or
- the Property may be affected by a disaster event.

If the Mortgagee determines the property condition will adversely impact the long-term use of the Property or ability to support the debt, the Mortgagee is not required to review the Borrower for the Permanent Home Retention Options.

#### **(B) Borrower Affordability Attestation**

##### **(1) Definition**

Borrower Affordability Attestation refers to the Borrowers' affirmation that the Borrower can make the offered monthly Mortgage Payment under the Home Retention Option and they will not be eligible for another Home Retention Option, which may provide additional payment reduction, in the 18 months following the execution of the offered Home Retention Option, except for a PDMDA.

##### **(2) Standard**

The Mortgagee must obtain the Borrower Affordability Attestation either by hard copy, electronically, or verbally for all Permanent Home Retention Options prior to issuing the TPP Agreement.

The Mortgagee must ensure:

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- the Borrower affirms the monthly Mortgage Payment amount offered is affordable; and
- the Borrower acknowledges they will not be eligible for another Home Retention Option, which may provide additional payment reduction, in the 18 months following the execution of the offered Home Retention Option, except for a PDMDA.

If the Mortgagee receives the Borrower Affordability Attestation verbally, the Mortgagee's employee must sign and date the verification and note the name and the phone number of the Borrower.

#### **(3) Required Documentation**

The Mortgagee must include the Borrower Affordability Attestation in the Servicing File and Claim File.

#### **(C) Trial Payment Plans**

##### **(1) Definitions**

A Trial Payment Plan (TPP) is a payment plan for a period of three months, or six months for Non-Borrowers Who Acquired Title through an Exempted Transfer, during which the Borrower must make the agreed-upon consecutive monthly payments beginning after the Mortgagee has approved the Borrower for a Permanent Home Retention Option and prior to executing the permanent Loss Mitigation documents.

A Trial Payment Plan (TPP) Agreement is a written document that establishes the TPP terms, which must be provided to the Borrower prior to the first payment due under the TPP payment due date.

##### **(2) Standard**

###### **(a) Trial Payment Plan Required**

The Mortgagee must ensure the Borrower successfully completes a TPP for a period of three months before executing Permanent Home Retention Option documents.

The Mortgagee must ensure Non-Borrowers Who Acquired Title through an Exempted Transfer successfully complete a TPP for a period of six months before executing Permanent Home Retention Option documents.

###### **(b) Trial Payment Terms**

The Mortgagee must ensure the following terms of the TPP are met:

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- the TPP does not exceed a period of three consecutive months, or six consecutive months for Non-Borrowers Non-Borrowers Who Acquired Title through an Exempted Transfer;
- the payments must be made in, or no more than 15 Days before, the month they are due;
- the interest rate for the TPP and the permanent Loan Modification is not greater than the Market Rate;
  - o the Market Rate must be established when the TPP is offered;
- the final monthly Mortgage Payment for the Permanent Home Retention Option must not exceed the monthly payment under the TPP by more than 25 dollars, and the Borrower must attest that they can make the increased payment; and
- Late Charges must be waived during the trial payment period if the Borrower is paying as agreed on the TPP.

If the final monthly Mortgage Payment for the Permanent Home Retention Option increases by more than 25 dollars from the payment under the TPP, the Mortgagee must:

- obtain a new Borrower Affordability Attestation; and
- submit a variance request to HUD via EVARS.

##### **(c) Trial Payment Plan Agreement**

The Mortgagee must provide the TPP Agreement to all parties required to execute the Loss Mitigation Agreement at least 15 Days before the date the first trial payment is due. The Borrower is not required to sign and return the TPP Agreement.

The TPP Agreement must include:

- the duration of the TPP period;
- the amount of the monthly payments and the months the payments are due during the TPP period;
- the Market Rate for the modified Mortgage, if applicable;
- the payments must be made in, or no more than 15 Days before, the month they are due;
- remittance of the initial monthly installment in an amount equal to or greater than the amount required under the TPP is considered the Borrower's acceptance of the TPP Agreement; and
- a notice that indicates:
  - o after successfully completing the TPP, the Borrower must continue making payments in accordance with the terms of the TPP Agreement until the Permanent Home Retention Option documents have been ratified by all parties; and
  - o the reasons a TPP would fail.

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#### (d) Application of Trial Payments

When the trial payment is less than a full monthly payment the Mortgagee must apply them in accordance with Partial Payments for Mortgages in Default and any applicable federal regulations.

#### (3) Trial Payment Plans during Foreclosure

The Mortgagee must suspend or terminate the foreclosure action in accordance with [Terminating Foreclosure Proceedings for Loss Mitigation](#).

#### (4) Successful Completion of Trial Payment Plan Period

Upon the Borrower's successful completion of a TPP, the Mortgagee must:

- ensure the monthly Mortgage Payment for the Permanent Home Retention Option does not exceed the monthly trial payment amount by more than 25 dollars; or
  - o obtain a new Borrower Affordability Attestation if the monthly Mortgage Payment increases by more than 25 dollars and submit a variance request to HUD via EVARS;
- prepare the Loss Mitigation documents to be effective no later than the first Day of the second month following the final TPP month;
- provide the Loss Mitigation Agreement documents to all required parties at least 15 Days before the effective date of the Home Retention Option with the deadline to return executed documents;
- apply funds remaining in the Borrower's suspense account that do not total a full PITI payment to any calculated escrow shortage or to reduce any amounts that would otherwise be capitalized in the principal balance; and
- provide an executed copy of the Loss Mitigation Agreement documents to the Borrower no later than 15 Days after receipt of the documents.

#### (5) Trial Payment Plan Failure

##### (a) Standard

The Borrower has failed a TPP when one of the following occurs:

- the Borrower vacates or abandons the Property; or
- the Borrower does not make a scheduled TPP payment by the last Day of the month the payment was due.

The Mortgagee must report the TPP failure in SFDMS, even if a second TPP may be offered.

The Mortgagee must apply all funds remaining in suspense to the Borrower's account in accordance with [Application of Payments](#).

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1 If the Borrower fails a TPP and is not eligible for another Home Retention  
2 Option, the Mortgagee must evaluate the Borrower for Home Disposition  
3 Options.

4 HUD provides an automatic 90-Day extension for the Mortgagee to approve  
5 another Loss Mitigation Option, or to commence or recommence foreclosure,  
6 should a TPP fail.

#### 7 **(b) Reconsideration for Permanent Home Retention Options After TPP** 8 **Failure**

9 If the Borrower fails an initial TPP for a Permanent Home Retention Option  
10 due to not making a scheduled TPP payment by the last Day of the month the  
11 payment was due, the Mortgagee must:

- 12 • determine the Permanent Home Retention Option that provides the  
13 greatest payment reduction; and
- 14 • if the Permanent Home Retention Option provides a P&I payment  
15 reduction that is at least \$20 and 5 percent less than the P&I for the  
16 initial TPP, offer the Borrower one additional TPP at the current  
17 Market Rate for the Permanent Home Retention Option.

18 If the Borrower receives a second TPP, the Mortgagee must report the use of a  
19 TPP in SFDMS after the TPP failure for the initial TPP is reported.

20 If a second Permanent Home Retention Option is unable to provide the  
21 required P&I reduction or if the Borrower fails a second TPP, the Mortgagee  
22 must evaluate the Borrower for Home Disposition Options.

#### 23 **(6) Required Documentation**

24 The Mortgagee must retain a copy of any TPP Agreement in the Servicing File  
25 and the Claim File.

#### 26 **(D) Execution of Permanent Home Retention Documents**

27 The Mortgagee must send the Permanent Home Retention Option documents to the  
28 Borrower within 15 Days from the successful completion of a TPP.

29 The Borrower must return the executed Permanent Home Retention Documents  
30 within the month of the effective date of the Permanent Home Retention Option.

31 The Mortgagee must include a written notification with the Permanent Home  
32 Retention Documents that advises the Borrower:

- 33 • the Permanent Home Retention Option will be denied if the documents are not  
34 returned within the month of the effective date of the Permanent Home  
35 Retention Option; and

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- the Permanent Home Retention Option must fully reinstate the Mortgage even if the executed documents are accepted by the Mortgagee after the effective date of the Permanent Home Retention Option, within the month of the effective date.

If the Borrower fails to return the executed Permanent Home Retention Documents within the month of the effective date of the Permanent Home Retention Option, the Mortgagee must deny the option.

The Mortgagee must provide a fully executed copy of the Loss Mitigation Agreement documents to the Borrower no later than 15 Days after the documents are accepted by the Mortgagee.

#### iv. Partial Claims

##### (A) Definition

A Partial Claim is FHA's reimbursement of a Mortgagee advancement of funds on behalf of the Borrower in an amount necessary to assist in reinstating the Delinquent Mortgage and, where applicable, a principal deferment.

##### (B) Standard

The Partial Claim must be secured by a zero interest subordinate promissory Note and Mortgage executed by the Borrower in favor of HUD.

The Mortgagee must ensure that any Partial Claim, whether a Standalone Partial Claim or in combination with a Loan Modification, fully reinstates the Mortgage. A Partial Claim offered in combination with a Loan Modification may include an amount used for principal deferment, when required.

Mortgagees must perform an escrow analysis to ensure that the delinquent payments to be included in the Partial Claim reflect the actual escrow funds required for those months and adequate funds to pay escrow bills when due to avoid a future escrow shortage without creating a surplus.

The minimum Partial Claim amount must be no less than \$1,000, except for Partial Claims for Home Retention Options associated with a PDMDA.

Mortgagees may include an additional monthly payment to the Arrearage amount to allow time for the Borrower to return the executed documents, and to ensure the Partial Claim includes all Arrearages accrued prior to the Borrower resuming Mortgage Payments. No other fees or costs may be included in the Partial Claim.

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#### **(C) Statutory Maximum for Partial Claims (including Payment Supplement)**

Statutory Maximum for Partial Claims refers to the total outstanding balance of all Partial Claims and Payment Supplements and must not exceed 30 percent of the Mortgage's unpaid principal balance, as of the date of Default at the time of payment of the initial Partial Claim and will remain constant for the life of the Mortgage.

The total funds available for a Partial Claim must be calculated per [Determining the Maximum Funds Available for a Partial Claim](#).

When reviewing Borrowers for a Partial Claim, a refinanced Mortgage on the same Property and by the same Borrower is not considered a new Mortgage for determining the statutory maximum value for all Partial Claims.

#### **(D) Verification of Previous Partial Claim(s)**

For purposes of verifying all previous Partial Claims, the Mortgagee must also verify all Payment Supplements in the total balance of all Partial Claims, if applicable.

The Mortgagee must verify if the Borrower previously received one or more Partial Claim(s) or Payment Supplements and, if applicable, the total balance of all Partial Claims. The Mortgagee must:

- verify through HUD's SMART Integrated Portal (SIP) if the Borrower has previously received a Partial Claim, including reviewing prior case number loan information; and
- if the Borrower has previously received a Partial Claim, the Mortgagee must verify in SIP:
  - o the unpaid principal balance at the time of payment of the initial Partial Claim, as reported in the Unpaid Balance Claimed field; and
  - o the aggregate total of all Partial Claim(s) paid on the Mortgage.

The Mortgagee must review their records to ensure all previous Partial Claims and Payment Supplements have been submitted to HUD and are reported in SIP. If the Mortgagee is aware of other Partial Claims or Payment Supplements that are not reported in SIP, the Mortgagee must include those amounts in the calculation.

#### **(E) Determining the Maximum Funds Available for a Partial Claim**

The Mortgagee must use the calculations in Appendix 4.0 FHA Home Retention Options Calculations, Part B: Partial Claim Availability to determine the maximum funds available for a Partial Claim.

#### **(F) Interest on Partial Claims**

No interest will accrue on the Partial Claim.



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### (G) Standalone Partial Claim

#### (1) Notification to Borrower

When offering a Standalone Partial Claim, the Mortgagee must advise the Borrower that they may be eligible for a Permanent Home Retention Option that may be able to reduce the Mortgage Payment.

#### (2) Borrower Eligibility

The Mortgagee must ensure the Borrower:

- has sufficient Partial Claim funds to reinstate the Mortgage, as calculated in Appendix 4.0, Part C;
- the Borrower attests they can resume Mortgage Payments; and
- successfully completes a TPP.

#### (3) Compare Monthly P&I for Standalone Partial Claim and Standalone Loan Modification

Where the Borrower attests that they can resume their Mortgage Payment, the Mortgagee must compare the modified Principal and Interest (P&I) for the Standalone Loan Modification amortized for a 30-year term at Market Rate, as calculated in Appendix 4.0, Part C, Step 2, to the P&I for the Standalone Partial Claim to preserve Partial Claim funds.

The Mortgagee must determine if the P&I for the Standalone Loan Modification is both \$20 and at least 5 percent less than the P&I for the Standalone Partial Claim.

- If yes, the Mortgagee must offer the Borrower a Standalone Loan Modification.
- If no, the Mortgagee must offer the Borrower a Standalone Partial Claim.

If the Borrower does not meet the requirements for a Standalone Partial Claim, the Mortgagee must evaluate the Borrower for a Permanent Home Retention Option that provides payment reduction, starting with the Standalone Loan Modification.

### (H) Partial Claims as Part of Combination Loan Modification and Partial Claim

The Mortgagee must ensure:

- the Borrower meets the requirements for a [Combination Loan Modification and Partial Claim](#); and
- the amount of the Partial Claim as part of the Combination Loan Modification and Partial Claim does not exceed the amount required to provide the target payment reduction.

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#### (I) Payment of Partial Claim

HUD will not require payment on the Partial Claim until the first of the following events occurs:

- the maturity of the Mortgage;
- the sale, transfer, or assumption of the Property;
- the Payoff of the Mortgage, except that HUD will agree to subordinate the Partial Claim Note to a Streamline Refinance; or
- if provided for under the Partial Claim Note, the termination of FHA insurance.

HUD does not prohibit partial or total payment on the Partial Claim at any time prior to the due date for the Partial Claim.

#### (J) Partial Claim Documents

##### (1) Definition

Partial Claim Documents refers to a Partial Claim promissory Note and Subordinate Mortgage, or, for a Payment Supplement, the Payment Supplement promissory Note, Payment Supplement Agreement, and Payment Supplement Subordinate Mortgage.

##### (2) Partial Claim or Payment Supplement Promissory Note and Subordinate Mortgage

The Mortgagee must prepare the promissory Note and subordinate Mortgage as follows:

- the promissory Note must be executed with the name of the Secretary;
- the subordinate Mortgage must be prepared and recorded; and
- the promissory Note and subordinate Mortgage must include:
  - o the full FHA Case Number;
  - o the provisions of HUD's model promissory Note and subordinate Mortgage or a substantially similar document; and
  - o any amendments as required by state or federal law or regulations.

The Mortgagee must provide the Borrower with a promissory Note and subordinate Mortgage to be signed by the Borrower and recorded by the Mortgagee.

##### (3) Execution of Partial Claim Documents after Trial Payment Plan

The Mortgagee must ensure that the Borrower has successfully completed a TPP before executing the promissory Note and subordinate Mortgage.

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#### (4) Recordation of Partial Claim Documents

The Mortgagee must submit executed Partial Claim security instruments to the recording jurisdiction for recordation within 10 business days from the date the Mortgagee receives the executed documents from the Borrower or, where HUD execution is required, receipt from HUD.

The Mortgagee must submit the security instruments for recordation before filing the claim with HUD.

The Mortgagee must ensure that the recordation of the Partial Claim security instruments does not jeopardize the first lien status of the FHA-insured Mortgage. There is no lien priority requirement for the filing of a Partial Claim or Payment Supplement.

#### (5) Required Documentation

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

- a copy of the executed promissory Note and subordinate Mortgage;
- evidence that the Mortgage was submitted timely 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.

#### (6) Delivery of Partial Claim Documents to HUD

The Mortgagee must deliver to HUD:

- no later than 60 Days from the execution date, the original promissory Note;
- no later than six months from the execution date, the recorded subordinate Mortgage; and
- with each delivery of Partial Claim Documents, the Mortgagee must include a cover letter with the FHA case number for the documents that are being delivered.

#### (7) Partial Claim Discrepancies

The Mortgagee must make corrections to satisfy the document delivery requirements for complete and accurate Partial Claim Documents if the Partial Claim Documents received from the Mortgagee contain deficiencies or discrepancies.

The Mortgagee may use SIP to determine if any Partial Claim Documents are missing, past delivery deadlines, or contain deficiencies or discrepancies. If the Mortgagee's records confirm the Partial Claim Documents were delivered to HUD, the Mortgagee must provide the Partial Claim Documents with proof of

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1 delivery with a copy of the list of contents with the FHA case number(s) for the  
2 documents that are being delivered.

#### 3 **(8) Lost Note Affidavit**

4 If the original Partial Claim promissory Note is lost, the Mortgagee must deliver a  
5 lost note affidavit to HUD's Loan Servicing Contractor no later than 60 Days  
6 from the date the Borrower executed the Partial Claim security instruments.

7 The lost note affidavit must be acceptable under state law, and must include the  
8 following:

- 9 • the FHA case number;
- 10 • the Borrower(s)' name;
- 11 • the FHA-insured property address;
- 12 • the original Note amount; and
- 13 • the date the Borrower executed the Partial Claim security instruments.

14 The Mortgagee must submit a cover letter with the lost note affidavit that certifies  
15 the Mortgagee has exhausted all efforts to locate the original Partial Claim  
16 promissory Note executed by the Borrower.

#### 17 **Required Documentation**

18 The Mortgagee must retain in the Servicing File and Claim File a copy of the lost  
19 note affidavit and all related documentation provided to HUD.

#### 20 **(9) Requests for Extensions of Time for Delivery of Partial Claim Documents**

##### 21 **(a) Standard**

22 The Mortgagee may request an extension of time by submitting the request to  
23 HUD via EVARS when:

- 24 • the Mortgagee can demonstrate timely submission of [Recordation of](#)  
25 [Partial Claim Documents](#); and
- 26 • Partial Claim Document delivery has been delayed due to events  
27 beyond the Mortgagee's control.

28 HUD will not approve an extension of time for submission of the promissory  
29 Note.

##### 30 **(b) Required Documentation**

31 The Mortgagee must retain any approved extensions received from HUD in  
32 the Servicing File and the Claim File, if applicable.

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#### (10) Failure to Provide Partial Claim Documents

When the Mortgagee fails to provide HUD with the promissory Note and recorded subordinate Mortgage within the required time frames and any approved extensions, HUD may require reimbursement of the full amount of the Partial Claim funds and any incentive fee.

Upon reimbursement of the full amount of the Partial Claim funds, the Mortgagee must:

- not reverse the application of the Partial Claim funds to the Borrower's Mortgage and must not submit a new claim;
- continue to service the Mortgage according to the terms of the Partial Claim or a Payment Supplement; and
- only pursue repayment of the Partial Claim funds from the Borrower under the original terms of the promissory Note and subordinate Mortgage.

If the security instrument has been recorded, the Mortgagee must provide an assignment to HUD to execute the assignment and the Partial Claim Documents to the Mortgagee. Upon receipt of the executed assignment, the Mortgagee must submit the assignment to the jurisdiction for recordation within 15 business days from the date the Mortgagee receives the executed document from HUD. If the Mortgagee fails to record the assignment within the prescribed time frame, HUD will release the lien upon request.

#### (K) Reconciliation of Partial Claim Proceeds to Promissory Note Amounts

If the Mortgagee miscalculates the Partial Claim amount, resulting in an overpayment to the Mortgagee, the Mortgagee must remit the overpaid amount immediately to HUD via Pay.gov - Single Family Notes Lender Entry Form.

In the event the Mortgagee claimed less than the actual Partial Claim promissory Note amount, the Mortgagee must absorb the cost of the miscalculation.

The Mortgagee must include their review process for ensuring the accurate calculation of Partial Claims in their required QC Plan.

#### (L) Servicing of Partial Claims

The Mortgagee remains responsible for servicing the Partial Claim until the debt and security instruments are legally recorded in the appropriate jurisdiction and delivered to HUD.

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#### (M) Notification to HUD

Mortgagees must notify HUD when the first Mortgage is being paid in full or refinanced. HUD's Loan Servicing Contractor must be contacted to request a payoff quote on the outstanding Partial Claim.

#### v. Loan Modifications

##### (A) Definitions

A Loan Modification refers to a Standalone Loan Modification or a Loan Modification provided as part of a Combination Loan Modification and Partial Claim, which provides a permanent change in one or more terms of a Borrower's Mortgage.

A Standalone Loan Modification modifies the original terms of the Mortgage to resolve the outstanding Arrearage by re-amortizing the total outstanding debt at the Market Rate and extending the term.

A Combination Loan Modification and Partial Claim modifies the original terms of the Mortgage to resolve the outstanding Arrearage by re-amortizing the total outstanding debt at the Market Rate and extending the term and may include a principal reduction when required.

##### (B) Standard

The Mortgagee must ensure that the Loan Modification fully reinstates the Mortgage, complies with the interest rate and modified principal balance provisions below, and must only capitalize Arrearages, as calculated in Appendix 4.0, Part A: Arrearages.

The Mortgagee must perform an escrow analysis to ensure that the amount to be capitalized includes the delinquent escrow payments and adequate funds to pay escrow bills when due to avoid a future escrow shortage without creating a surplus.

No other costs may be capitalized in the Loan Modification.

The Mortgagee must ensure that Hazard Insurance and Flood Insurance, where required, are updated for the modified mortgage amount.

##### (C) Exemption for Mortgages that Cannot be Modified

Mortgagees who service Mortgages funded in connection with mortgage revenue bonds that are restricted by the Internal Revenue Code (IRC) are exempt from providing a Loan Modification if the term cannot be extended or the interest rate cannot be modified.

##### (D) Interest Rate

The Mortgagee must ensure that any modified loan is a fixed rate Mortgage.

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1 At the Mortgagee's discretion, the Mortgagee may reduce Note interest rates below  
2 Market Rate; however, Discount Points associated with rate reductions are not  
3 reimbursable. When increasing Note interest rates, the Mortgagee must calculate the  
4 maximum interest allowable as the Market Rate.

##### 5 (1) Market Rate

6 Market Rate is a rate that is no more than 25 bps for a 30-year loan modification  
7 or 50 bps for a 40-year loan modification greater than the most recent Freddie  
8 Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed  
9 rate conforming Mortgages (U.S. average), rounded to the nearest one-eighth of 1  
10 percentage point (0.125 percent), as of the date the Borrower is offered a TPP.  
11 The Mortgagee must first round the PMMS Rate to the nearest one-eighth of 1  
12 percentage point (0.125 percent) before calculating the rate at 25 bps or 50 bps  
13 greater than the PMMS Rate.

##### 14 (2) Market Rate Resources

15 The Weekly PMMS results are published on the [Freddie Mac website](#).

##### 16 (E) Modified Loan Term

17 The Mortgagee must re-amortize the total unpaid amount due over 360 months or 480  
18 months from the due date of the first installment required under the modified FHA-  
19 insured Mortgage.

20 The term of a Standalone Loan Modification may be less than 360 months if:

- 21 • requested by the Borrower; and
- 22 • a term that is less than 360 months does not result in the modified PITI being  
23 greater than the target monthly payment.

##### 24 (F) Standalone Loan Modifications

##### 25 (1) 30-Year Standalone Loan Modification

##### 26 (a) Borrower Attests They Can Resume Mortgage Payments

27 The Mortgagee is not required to meet the minimum 25 percent P&I reduction  
28 for Borrowers who attest that they can resume their current Mortgage  
29 Payment and the P&I portion of the modified Mortgage Payment for the 30-  
30 year Standalone Loan Modification is at least \$20 and 5 percent less than or  
31 equal to the P&I for the Standalone Partial Claim as calculated in Appendix  
32 4.0, Part C.

33 If the Borrower affirms that they can make the modified Mortgage Payment,  
34 the Mortgagee must offer the 30-year Standalone Loan Modification.

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#### **(b) Borrower Attests They Require Payment Reduction**

The Mortgagee must determine if a 30-year Standalone Loan Modification can achieve a minimum 25 percent reduction to the P&I portion of the Mortgage Payment using the calculations in [Appendix 4.0 FHA Home Retention Options Calculations, Part D](#).

If a 25 percent reduction can be achieved at the Market Rate, the Mortgagee must offer the Borrower a 30-year Standalone Loan Modification.

If a 25 percent reduction cannot be achieved, the Mortgagee must review the Borrower for a 40-year Standalone Loan Modification.

#### **(2) 40-Year Standalone Loan Modification**

The Mortgagee must determine if a 40-year Standalone Loan Modification can achieve a minimum 25 percent reduction to the P&I portion of the Mortgage Payment using the calculations in [Appendix 4.0 FHA Home Retention Options Calculations, Part D](#).

If a 25 percent reduction can be achieved at the Market Rate, the Mortgagee must offer the Borrower a 40-year Standalone Loan Modification.

If a 25 percent reduction cannot be achieved and the Borrower has a minimum of \$1,000 in Partial Claim funds available, the Mortgagee must review the Borrower for a Combination Loan Modification and Partial Claim.

If the Borrower does not have a minimum of \$1,000 in Partial Claim funds available, the Mortgagee must offer the Borrower a 40-year Standalone Loan Modification, even if the payment increases.

#### **(3) Outside of the Waterfall Loan Modification**

The Mortgagee must ensure that all requirements are met for [Outside of the Waterfall Loan Modifications \(OWL\)](#).

#### **(G) Combination Loan Modification and Partial Claim**

The Mortgagee must use the calculations in Appendix 4.0 FHA Home Retention Options Calculations, Part E, to determine the loan amount and Partial Claim funds required for a Combination Loan Modification and Partial Claim.

#### **(1) 30-Year Combination Loan Modification and Partial Claim**

The Mortgagee must determine if a 30-year Combination Loan Modification and Partial Claim can achieve a 25 percent reduction to the P&I portion of the Mortgage Payment. The Mortgagee must ensure the Partial Claim is no more than



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1 what is needed to achieve a 25 percent reduction to the P&I and may include  
2 principal deferment if required to achieve a 25 percent reduction.

3 If the 25 percent reduction is achieved, the Mortgagee must offer the Borrower a  
4 30-year Combination Loan Modification and Partial Claim.

5 If the 25 percent reduction cannot be achieved, the Mortgagee must review the  
6 Borrower for a 40-year Combination Loan Modification and Partial Claim.

#### 7 **(2) 40-Year Combination Loan Modification and Partial Claim**

8 The Mortgagee must determine if a 40-year Combination Loan Modification and  
9 Partial Claim can achieve a 25 percent reduction to the P&I portion of the  
10 Mortgage Payment. The Mortgagee must ensure the Partial Claim is no more than  
11 what is needed to achieve a 25 percent reduction to the P&I and may include  
12 principal deferment if required to achieve a 25 percent reduction.

13 If the 25 percent reduction can be achieved, the Mortgagee must offer the  
14 Borrower a 40-year Combination Loan Modification and Partial Claim.

15 If the 25 percent reduction cannot be achieved, but a minimum 15 percent  
16 reduction to the P&I portion of the Mortgage Payment can be achieved the  
17 Mortgagee must offer the 40-year Combination Loan Modification and Partial  
18 Claim.

19 If a minimum 15 percent reduction to the P&I portion of the Mortgage Payment  
20 cannot be achieved, the Mortgagee must review the Borrower for the Payment  
21 Supplement.

#### 22 **(H)FHA Mortgage Insurance Coverage and Mortgage Insurance Premium**

23 When the Loan Modification has been processed in accordance with HUD  
24 requirements, HUD will extend FHA mortgage insurance coverage to the new  
25 principal balance and modified maturity date. FHA insurance will remain in force  
26 until the Mortgage has been paid in full, canceled, or terminated. The amount of MIP  
27 will continue to be based on the scheduled unpaid principal balance of the original  
28 Mortgage, without taking into consideration delinquencies or prepayments.

#### 29 **vi. Payment Supplement**

##### 30 **(A) Definitions**

31 The Payment Supplement is a loss mitigation option that utilizes Partial Claim funds  
32 to bring the Mortgage current coupled with the subsequent provision of a Monthly  
33 Principal Reduction (MoPR) applied toward the Borrower's principal due each month  
34 for a period of 36 months to provide payment relief without modification of the  
35 Mortgage. The Payment Supplement is evidenced by a non-interest bearing Note,

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1 Subordinate Mortgage, and Payment Supplement Agreement, which is a rider to and  
2 is incorporated by reference into the Payment Supplement promissory Note, given in  
3 favor of the Secretary, representing the total of all funds paid from the Mutual  
4 Mortgage Insurance Fund (MMIF) to bring the Mortgage current and then  
5 temporarily pay a portion of principal owed by the Borrower each month to reduce  
6 the Borrower's monthly Mortgage Payment.

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

11 The Minimum Monthly Principal Reduction (Minimum MoPR) must be equal to or  
12 greater than 5 percent of the P&I portion of the Borrower's monthly Mortgage  
13 Payment as of the date the Payment Supplement Period begins. The Minimum MoPR  
14 must also be no less than \$20.00 per month as of the date the Payment Supplement  
15 Period begins.

16 Payment Supplement Documents refer to a non-interest bearing Note, Subordinate  
17 Mortgage, and a Payment Supplement Agreement, which is a rider to and is  
18 incorporated by reference into the Payment Supplement promissory Note, given in  
19 favor of the Secretary.

20 The Payment Supplement Period is a 36 month period during which the Mortgagee  
21 applies the MoPR to temporarily reduce the Borrower's monthly Mortgage Payment.

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

##### 27 **(B) Eligibility**

28 The Mortgagee must ensure that:

- 29 • the Mortgage is a fixed rate Mortgage;
- 30 • sufficient Partial Claim funds are available to bring the Mortgage current and  
31 to fund the MoPR using the calculations in [Appendix 4.0 FHA Home](#)  
32 [Retention Options Calculations Part B and Part F](#);
- 33 • the Borrower meets the requirements for [Loss Mitigation during Bankruptcy](#)  
34 [Proceedings](#);
- 35 • the principal portion of the Borrower's first monthly Mortgage Payment after  
36 the Mortgage is brought current will be greater than or equal to the Minimum  
37 MoPR;

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- the Borrower completes the Borrower Affordability Attestation indicating they have the ability to make the Borrower's portion of the monthly Mortgage Payment; and
- the Borrower completes a TPP.

The Borrower is not eligible for a new Payment Supplement until 36 months after the date the Borrower previously executed Payment Supplement Documents.

#### (C) Standard

The Mortgagee must first advance funds for all amounts needed to bring the Mortgage current.

The maximum MoPR is the lesser of a 25 percent P&I reduction for 36 months, or the principal portion of the monthly Mortgage Payment as of the date the Payment Supplement Period begins.

The Mortgagee may only submit one claim for the Payment Supplement. The Mortgagee must submit the claim for the Payment Supplement no later than 60 Days after the date of execution of the Payment Supplement Documents by the Borrower.

The claim must include:

- all amounts needed to bring the Mortgage current before the start of the Payment Supplement Period; and
- the total amount required for all estimated MoPR payments for the full Payment Supplement Period.

The Mortgagee must retain the balance of the MoPR funds in the Payment Supplement Account for the benefit of the Borrower until disbursement of the funds:

- for application of the MoPR; or
- for remittance to HUD.

The Payment Supplement Period is 36 months.

For each month of the Payment Supplement Period, the Mortgagee must only disburse funds from the Payment Supplement Account to apply the MoPR to the principal portion of the monthly Mortgage Payment after the Mortgagee has received and accepted, at a minimum, the Borrower's portion of the monthly Mortgage Payment. The Mortgagee must only apply the MoPR during the 36 months of the Payment Supplement Period.

Additional funds received from the Borrower that exceed the minimum portion of the Borrower's required payment do not impact the application of the MoPR. Any additional payment made by the Borrower must not be comingled with the MoPR or funds held in the Payment Supplement Account.

The Mortgagee must not recalculate the MoPR during the Payment Supplement Period.

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

#### 3 **(D) Payment Supplement Calculations**

4 To calculate the amount of the Partial Claim the Mortgagee submits to HUD for the  
5 Payment Supplement, the Mortgagee must use the calculations in Appendix 4.0 FHA  
6 Home Retention Options Calculations, Part F: Payment Supplement Calculations.

#### 7 **(1) Step 1 – Calculate Partial Claim Availability**

8 The Mortgagee must determine the maximum Partial Claim amount available for  
9 the Payment Supplement. The Payment Supplement, in addition to any other  
10 existing Partial Claim, must not exceed the [Statutory Maximum for Partial](#)  
11 [Claims](#).

12 The Mortgagee must use the calculations in Appendix 4.0 FHA Home Retention  
13 Options Calculations, Part B: Partial Claim Availability to determine the  
14 maximum funds available for a Partial Claim.

#### 15 **(2) Step 2 – Calculate Amount Required to Reinstate the Mortgage Using a** 16 **Payment Supplement**

17 The Mortgagee must calculate the amounts needed to bring the Mortgage current  
18 as calculated in Appendix 4.0 FHA Home Retention Options Calculations, Part A:  
19 [Arrearages](#).

20 Mortgagees may include an additional monthly payment in calculating the amount  
21 needed to bring the Mortgage current, as the payment will be past due before the  
22 Borrower returns the completed Payment Supplement Documents.

#### 23 **(3) Step 3 – Calculate Partial Claim Funds Available for MoPR**

24 The Mortgagee must determine the amount of Partial Claim funds available for  
25 the MoPR.

26 The Mortgagee must subtract the amount needed to bring the Mortgage current  
27 (calculated in Step 2) from the Borrower's total Partial Claim funds available  
28 (calculated in Step 1).

29 If the amount needed to bring the Mortgage current (Step 2) is greater than the  
30 Borrower's total Partial Claim funds available (calculated in Step 1), the  
31 Borrower is not eligible for the Payment Supplement and the Mortgagee must  
32 offer the Borrower the lowest monthly P&I payment that can be achieved under  
33 the [Combination Loan Modification and Partial Claim](#).

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1                   **(4) Step 4 – Calculate Maximum MoPR**

2                   **(a) Step 4.A**

3                   The Mortgagee must calculate the amount needed to reduce the P&I portion of  
4                   the Borrower's monthly Mortgage Payment by 25 percent.

5                   **(b) Step 4.B**

6                   The Mortgagee must determine the maximum MoPR.

7                   The maximum MoPR is the lesser of the amount calculated in Step 4.A or the  
8                   principal portion only of the Borrower's monthly Mortgage Payment as of the  
9                   date the Payment Supplement Period begins after the Mortgage is brought  
10                  current.

11                  **(5) Step 5 – Calculate the MoPR**

12                  **(a) Step 5.A**

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

- 16                  • If the Borrower has sufficient Partial Claim funds, the amount of the  
17                  MoPR is the MoPR (calculated in Step 4.B) for the 36 months of the  
18                  Payment Supplement Period. Proceed to Step 6.
- 19                  • If the Borrower does not have sufficient Partial Claim funds for the  
20                  maximum MoPR for 36 months, the Mortgagee must proceed to Step  
21                  5.B.

22                  **(b) Step 5.B**

23                  If the Borrower does not have sufficient Partial Claim funds available for the  
24                  maximum MoPR for 36 months (calculated in Step 5.A), the Mortgagee must  
25                  divide the amount of Partial Claim funds available for the MoPR (calculated  
26                  in Step 3) by 36 months and proceed to Step 6.

27                  **(6) Step 6 – Payment Reduction Test**

28                  The Mortgagee must determine if the MoPR will result in no less than the  
29                  Minimum MoPR for a Payment Supplement Period of 36 months where the  
30                  MoPR is only applied to the principal.

- 31                  • If the MoPR (calculated in Step 5) reduces the P&I portion of the  
32                  Borrower's monthly Mortgage Payment by no less than the Minimum  
33                  MoPR, the Mortgagee must proceed to Step 7.
- 34                  • If the MoPR (calculated in Step 5) fails to reduce the P&I portion of the  
35                  Borrower's monthly Mortgage Payment by the Minimum MoPR, the

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1 Borrower is ineligible for the Payment Supplement. The Mortgagee must  
2 offer the Borrower the lowest monthly P&I payment that can be achieved  
3 under:

- 4 o a 40-year Combination Loan Modification and Partial Claim; or
- 5 o a Standalone Partial Claim.

#### 6 (7) Step 7 – Compare Payment Reduction with Available Permanent Home 7 Retention Options

8 If the MoPR (calculated in Step 5) achieves the Minimum MoPR, the Mortgagee  
9 must compare the proposed Borrower’s portion of the P&I monthly payment  
10 under the Payment Supplement with the Borrower’s proposed P&I monthly  
11 payment under the 40-year Combination Loan Modification and Partial Claim to  
12 determine the greater payment reduction.

13 If the Borrower is able to achieve a lower P&I monthly payment with the 40-year  
14 Combination Loan Modification and Partial Claim, the Mortgagee must offer the  
15 Borrower the 40-year Combination Loan Modification and Partial Claim.

16 If the Borrower is not able to achieve a lower P&I monthly payment utilizing the  
17 40-year Combination Loan Modification and Partial Claim, the Mortgagee must  
18 offer the Borrower the Payment Supplement.

19 If the Borrower affirms that they can make the offered payment, the Mortgagee  
20 must complete that option.

21 The Mortgagee must document the Servicing File with the option offered to the  
22 Borrower.

#### 23 (E) Mortgages with an Interest Rate Buydown and Mortgages Affected by the 24 Servicemember Civil Relief Act

25 For Mortgages with an interest rate buydown and Mortgages affected by the  
26 Servicemembers Civil Relief Act (SCRA), the Mortgagee must:

- 27 • calculate the MoPR based on the P&I portion of the monthly Mortgage  
28 Payment as of the date the Payment Supplement Period begins:
  - 29 o based on the Note rate of the Mortgage without the temporary interest rate  
30 buydown, if applicable; and
  - 31 o based on the Note rate of the Mortgage without the SCRA protection, if  
32 applicable;
- 33 • ensure the MoPR does not exceed the principal portion of the monthly  
34 Mortgage Payment;
- 35 • ensure the MoPR does not change during the Payment Supplement Period;  
36 and
- 37 • ensure the Payment Supplement Period remains 36 months.

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### (F) Payment Supplement Documents

#### (1) Standard

The Mortgagee must prepare the Payment Supplement Documents using HUD's model Payment Supplement Documents or substantially similar documents. The Mortgagee must ensure that:

- the Payment Supplement promissory Note and Payment Supplement Agreement are executed in the name of the Secretary;
- all Payment Supplement Documents include the full FHA case number, are legally enforceable, and comply with all applicable laws;
- the Payment Supplement Documents comply with all requirements for [Partial Claim Documents](#); and
- the Payment Supplement subordinate Mortgage is recorded.

The Mortgagee must provide the Borrower with the Payment Supplement Documents to be signed. The Borrower is required to sign and return the Payment Supplement Documents before the Mortgagee brings the Mortgage current and applies the first MoPR.

#### (2) Document Delivery Requirements

The Mortgagee must deliver [the Payment Supplement Documents](#) to HUD's Loan Servicing Contractor [in accordance with Partial Claim Documents](#).

### (G) Payment Supplement Account

#### (1) Standard

The Mortgagee must segregate the funds paid by FHA for the MoPR in the Payment Supplement Account. The Payment Supplement Account must:

- be deposited with a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA);
- not limit the Mortgagee's access to funds for the MoPR, require an advance notice of withdrawal, or require the payment of a withdrawal penalty;
- clearly identify the funds being held in that account as being derived from and held as part of the Payment Supplement Documents executed by the Borrower as part of the Payment Supplement loss mitigation action being undertaken by the Mortgagee; and
- ensure that the funds in the Payment Supplement Account are not comingled with any funds held in accounts restricted by agreements with Ginnie Mae.

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1 Neither the Mortgagee nor the Borrower has any discretion in the use and  
2 application of the funds from the Payment Supplement.

3 Mortgagees utilizing a Trust Clearing Account must withdraw the portion that is  
4 to be deposited into the Payment Supplement Account within 48 hours of  
5 receiving the Payment Supplement funds from HUD.

6 Mortgagees are not prohibited from holding MoPR funds for multiple Mortgages  
7 in a single account for implementing the Payment Supplement; however, the  
8 Mortgagee must not commingle funds in the Payment Supplement Account, even  
9 temporarily, with any funds held in accounts restricted by agreements with Ginnie  
10 Mae, escrow funds, or funds used for the Mortgagee's general operating purposes  
11 or any other purpose.

12 If the Borrower enters into bankruptcy during the Payment Supplement Period,  
13 the Mortgagee must continue to apply the MoPR unless otherwise required or  
14 permitted by law. If so required, the Mortgagee must seek court approval for the  
15 Payment Supplement and the Borrower's reaffirmation of the Partial Claim debt.  
16 Any additional loss mitigation offered during bankruptcy must be in accordance  
17 with [Loss Mitigation during Bankruptcy Proceedings](#).

#### 18 (2) Interest on Payment Supplement Account

19 Neither the Mortgagee nor the Borrower may earn interest on a Payment  
20 Supplement Account.

#### 21 (H) Required Documentation

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

- 23 • documentation of the amount used to bring the Mortgage current at the start of  
24 the Payment Supplement Period;
- 25 • documentation of the amount of each MoPR disbursed from the Payment  
26 Supplement Account applied to the principal due on the Borrower's monthly  
27 Mortgage Payment;
- 28 • a copy of the executed Payment Supplement Documents;
- 29 • the date the Mortgagee received the executed Payment Supplement  
30 Documents from the Borrower and the date the subordinate Mortgage was  
31 sent to be recorded; and
- 32 • evidence that the subordinate Mortgage was submitted timely for recording.

#### 33 (I) Disclosures to Borrower

34 The Mortgagee must send the Borrower written disclosures annually and between 60  
35 and 90 Days before the expiration of the Payment Supplement Period.

36 Mortgagees may develop specific disclosure documents or may use or modify FHA's  
37 model Annual Payment Supplement Disclosure and Final Payment Supplement



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1 Disclosure documents. Mortgagees must ensure that any disclosures comply with all  
2 applicable laws.

#### 3 (1) Annual Payment Supplement Disclosure

4 The Mortgagee must send the Borrower a written disclosure annually, at  
5 minimum, during the Payment Supplement Period, including:

- 6 • information about the Payment Supplement, including:
  - 7 ○ the amount used to bring the Mortgage current at the start of the
  - 8 Payment Supplement;
  - 9 ○ the accounting of the MoPR funds disbursed from the Payment
  - 10 Supplement Account and applied each month during the Payment
  - 11 Supplement Period; and
  - 12 ○ the funds remaining in the Payment Supplement Account;
- 13 • the date of expiration of the Payment Supplement Period;
- 14 • the total Payment Supplement Note amount;
- 15 • the Borrower's current monthly Mortgage Payment without MoPR and an
- 16 explanation that if escrow amounts change, future payments may increase;
- 17 and
- 18 • a statement that the Borrower may voluntarily terminate the Payment
- 19 Supplement and resume their full monthly Mortgage Payment without the
- 20 MoPR and any remaining funds in the Payment Supplement Account will
- 21 be returned to HUD to reduce the total outstanding Payment Supplement
- 22 balance associated with the Borrower's Payment Supplement Documents.

23 The Mortgagee may include the disclosure as part of, or with, a monthly or annual  
24 billing statement. The disclosure may be sent electronically.

#### 25 (2) Final Disclosure Prior to Expiration of the Payment Supplement

26 The Mortgagee must send the Borrower a written disclosure between 60 and 90  
27 Days before the expiration of the Payment Supplement Period, including  
28 information about:

- 29 • the expiration of the Payment Supplement Period; and
- 30 • the accounting of the Payment Supplement, including:
  - 31 ○ the total Payment Supplement Note amount;
  - 32 ○ the amount used to bring the Mortgage current at the start of the
  - 33 Payment Supplement;
  - 34 ○ the accounting of the MoPR funds disbursed from the Payment
  - 35 Supplement Account and applied each month for the Payment
  - 36 Supplement Period;
  - 37 ○ if applicable, any funds remaining in the Payment Supplement
  - 38 Account and a statement that FHA will use these funds to reduce the
  - 39 balance on the amount owed by the Borrower under the Payment
  - 40 Supplement Documents; and

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- o the Borrower's estimated first monthly Mortgage Payment following the expiration of the Payment Supplement.

#### **(J) Subsequent Default during Payment Supplement Period**

If a Borrower is 30 Days or more past due or in Imminent Default during the Payment Supplement Period, the Mortgagee must review the Borrower in accordance with the [Loss Mitigation Review Process](#). The [permanent Loss Mitigation Option](#) will determine if:

- the MoPR will continue to be applied for the remainder of the Payment Supplement Period without changes to the Payment Supplement Agreement; or
- the Payment Supplement will be terminated.

The Mortgagee may provide a [Forbearance](#) prior to evaluating the Borrower for [Loss Mitigation Options](#), and must not terminate the Payment Supplement Period during the Forbearance.

#### **(1) Mortgage Reinstatement without a Permanent Loss Mitigation Option – MoPR Continues**

If the Borrower, without the use of a permanent loss mitigation option, makes their portion of the missed monthly Mortgage Payments, the MoPR must be disbursed from the Payment Supplement Account and then applied to the missed payments as they are made. For these missed payments, the MoPR must be applied only to the principal portion of the missed Mortgage Payment and for the exact amount that would have been applied for an on-time payment, including when the Mortgage is brought current through payments made on a Repayment Plan or a [Forbearance](#).

The MoPR must be applied for the remainder of the Payment Supplement Period as the Borrower makes each required payment.

#### **(2) Mortgage Reinstatement with a Standalone Partial Claim – MoPR Continues**

If the Borrower requires a new loss mitigation option to reinstate their Mortgage, the Mortgagee must first evaluate the Borrower for an additional Standalone Partial Claim to bring the Mortgage current.

A Borrower may receive no more than two Standalone Partial Claims to reinstate the Mortgage during the Payment Supplement Period.

The Mortgagee must determine the amount of funds needed for the Standalone Partial Claim by:

- calculating the amount needed to bring the Mortgage current, per the requirements for a [Standalone Partial Claim](#); and

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- 1                   • reducing the amount needed to bring the Mortgage current by the MoPR  
2                   for each month it was not applied due to missed payments by the  
3                   Borrower.

4                   If the Borrower has sufficient additional Partial Claim funds available, the  
5                   Mortgagee must:

- 6                   • ensure the Borrower attests they can resume their portion of the monthly  
7                   Mortgage Payment;  
8                   • ensure all requirements in accordance with a [Standalone Partial Claim](#) are  
9                   met; and  
10                  • prepare and send the Borrower the documents for a Standalone Partial  
11                  Claim to reinstate the Mortgage.

12                  Upon receipt of the executed Standalone Partial Claim documents from the  
13                  Borrower, the Mortgagee must:

- 14                  • disburse and then apply funds from the Payment Supplement Account to  
15                  cover the MoPR for each month it was not applied due to missed  
16                  payments by the Borrower; and  
17                  • advance the funds from the Standalone Partial Claim necessary to reinstate  
18                  the Mortgage.

19                  For missed payments, the MoPR must be applied only to the principal portion of  
20                  the missed payment and for the exact amount that would have been applied for an  
21                  on-time payment. After the Mortgage is reinstated, the Mortgagee must resume  
22                  applying the MoPR.

23                  The Payment Supplement Period will not be extended beyond the original term  
24                  set in the Payment Supplement Agreement.

#### (3) Mortgage Reinstatement with Other Permanent Loss Mitigation Option – MoPR Terminates

27                  If the Borrower cannot bring the Mortgage current through an additional  
28                  Standalone Partial Claim, the Mortgagee must:

- 29                  • evaluate the Borrower for the available **Permanent Home Retention**  
30                  **Options**;  
31                  • terminate the Payment Supplement and application of the MoPR upon  
32                  receipt of the new executed loss mitigation documents;  
33                  • send the Borrower documentation that the Payment Supplement has been  
34                  terminated and a detailed account of how the Payment Supplement funds  
35                  were applied;  
36                  • no later than 30 Days after the date the Payment Supplement was  
37                  terminated, remit any remaining funds from the Payment Supplement  
38                  Account [to HUD](#) via Pay.gov; and  
39                  • report the termination of the Payment Supplement through SFDMS.

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#### (4) Mortgage Cannot Be Reinstated – MoPR Terminates

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

##### (a) Pre-Foreclosure Sales

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

- proceed with the PFS requirements under [Pre-Foreclosure Sale](#);
- prior to execution of the Approval to Participate (ATP) agreement (form [HUD-90045](#), *Approval to Participate Pre-foreclosure Sale Procedure Property Sales Information Property Occupancy & Maintenance*), provide the Borrower with a disclosure statement including:
  - the Payment Supplement will be terminated upon receipt of the executed ATP and the Mortgagee will not advance funds to cover the MoPR during the PFS marketing period;
  - the amount of the Partial Claim that was used to bring the Mortgage current at the start of the Payment Supplement Period;
  - the total amount of funds that were disbursed from the Payment Supplement Account for MoPR payments; and
  - the amount of individual MoPR payments and the months for which they were applied;
- terminate the Payment Supplement upon receipt of the executed ATP;
- ensure that no funds remaining in the Payment Supplement Account are returned to the Borrower;
- ensure that the funds remaining in the Payment Supplement Account are not used as a credit to the first Mortgage;
- no later than 30 Days after the date of execution of the ATP, remit all remaining funds in the Payment Supplement Account [to HUD](#) via Pay.gov;
- instruct the Closing Agent to pay off the outstanding amount due under the Payment Supplement Note and other Partial Claims, if any, at closing [to HUD](#); and
- no later than 45 Days after the date of termination of the Payment Supplement, upload the final accounting of the Payment Supplement into the SMART Integrated Portal (SIP).

##### (b) Deed-in-Lieu of Foreclosure, Foreclosure Sales, and CWCOT

In addition to the requirements for [DIL](#), [Foreclosures](#), and [CWCOT](#), the Mortgagee must:

- terminate the Payment Supplement when the sale is completed or the deed is transferred;

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- ensure that no funds remaining in the Payment Supplement Account are returned to the Borrower;
- ensure that the funds remaining in the Payment Supplement Account are not used as a credit to the first Mortgage; and
- no later than 30 Days after the date the sale is completed or the deed is transferred, remit all remaining funds in the Payment Supplement Account [to HUD](#) via Pay.gov; and
- no later than 45 Days after the date the sale is completed or the deed is transferred, upload the final accounting of the Payment Supplement into SIP.

#### **(K) Completion or Termination of the Payment Supplement**

A Payment Supplement is completed or terminated upon the earlier of:

- the end date of the Payment Supplement Period;
- the application of 36 MoPRs; or
- early termination of the Payment Supplement.

No later than 30 Days after the date of the completion or termination of the Payment Supplement, the Mortgagee must remit any funds remaining in the Payment Supplement Account [to HUD](#) via Pay.gov.

#### **(1) Early Termination of the Payment Supplement**

##### **(a) Voluntary Termination Request**

The Mortgagee must terminate the Payment Supplement upon Borrower request if 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 send the Borrower documentation that the Payment Supplement has been terminated and a detailed account of how the Payment Supplement funds were applied.

##### **(b) Permanent Home Retention Action Completed**

The Mortgagee must terminate the Payment Supplement when any subsequent **Permanent Home Retention Option** is executed by all required parties, except for a Standalone Partial Claim.

##### **(c) PFS, DIL, Foreclosure, and CWCOT**

The Mortgagee must terminate the Payment Supplement upon receipt of an executed ATP for PFS or when the foreclosure sale, CWCOT sale, or transfer of deed is completed.

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1                                    **(d) Transfers and Assumptions**

2                                    The Payment Supplement is non-transferrable and not assignable to a new  
3                                    Borrower. Upon approval by the Mortgagee of the transfer or assumption, or  
4                                    when the Mortgagee receives actual or constructive knowledge of the transfer  
5                                    of ownership, the Mortgagee must terminate the Payment Supplement.

6                                    **(e) Sale (non-PFS) or Refinance**

7                                    If the Property is being sold or the Mortgage is being refinanced, the  
8                                    Mortgagee must:

- 9                                    • provide the Payment Supplement **payoff statement** upon request; and  
10                                    • terminate the Payment Supplement upon completion of the sale or  
11                                    refinance.

12                                    **(2) Final Accounting of Payment Supplement**

13                                    No later than 45 Days after the date of completion or termination of the Payment  
14                                    Supplement, the Mortgagee must:

- 15                                    • upload a final accounting of the Payment Supplement in the SMART  
16                                    Integrated Portal (SIP); and  
17                                    • input the amount of any funds remitted to HUD.

18                                    The Mortgagee is not permitted to submit the final accounting until after remitting  
19                                    to HUD all remaining funds from the Payment Supplement Account, if any.

20                                    The final accounting of the Payment Supplement is a document uploaded in SIP  
21                                    that must include:

- 22                                    • the amount that was used to bring the Mortgage current at the start of the  
23                                    Payment Supplement Period;  
24                                    • the total amount applied to MoPR payments; and  
25                                    • the amount of individual MoPR payments and the months for which they  
26                                    were applied.

27                                    The Mortgagee must also input in SIP the amount of funds, if any, that have been  
28                                    remitted [to HUD](#) via Pay.gov in SIP.

29                                    **(3) Payment Supplement Payoff Statement**

30                                    The Mortgagee must issue Payment Supplement payoff statements until the final  
31                                    accounting of the Payment Supplement has been submitted to HUD. The  
32                                    Mortgagee must issue Payment Supplement payoff statements upon request and  
33                                    when the Mortgagee receives a payoff request for the Borrower's first Mortgage.

34                                    The Mortgagee must include in a Payment Supplement payoff statement, at a  
35                                    minimum:

- 36                                    • the total amount due for the Payment Supplement, including itemizing:

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- 1                   o the amount that was used to bring the Mortgage current at the start of
- 2                   the Payment Supplement Period; and
- 3                   o the total amount applied to MoPR payments;
- 4                   • a statement that the Payment Supplement is a subordinate lien in the name
- 5                   of the Secretary of HUD;
- 6                   • instructions that the payoff of funds owed under the Payment Supplement
- 7                   must be remitted [to HUD](#) via Pay.gov;
- 8                   • a statement that the payoff amount will change if additional account
- 9                   activity occurs including:
- 10                  o any payment made that triggers the application of a MoPR; and
- 11                  o returned payments due to a stop payment or insufficient funds; and
- 12                  • anything required by applicable laws.

13                   The Payment Supplement payoff statement must not include or reflect as a credit  
14                   any remaining funds in the Payment Supplement Account.

15                   The Payment Supplement payoff statement must not include the balance of any  
16                   additional outstanding Partial Claims.

17                   If HUD receives a request for a payoff statement of the Payment Supplement  
18                   prior to receipt of the final accounting from the Mortgagee, HUD will provide the  
19                   maximum amount available under the Payment Supplement and direct the  
20                   requestor to contact the Mortgagee for the actual amount required to pay off the  
21                   Payment Supplement.

22                   After completion or termination of the Payment Supplement and submission of  
23                   the final accounting from the Mortgagee, the Mortgagee must not issue any  
24                   payoff statements for the Payment Supplement.

#### 25                   **(4) Required Documentation**

26                   The Mortgagee must retain a copy of the final accounting and, if applicable, the  
27                   Payment Supplement **payoff statement** in the Servicing File.

#### 28                   **(L) Errors or Miscalculations of Funds Associated with Payment Supplement**

29                   If the Mortgagee makes an error or miscalculates the Payment Supplement that results  
30                   in:

- 31                   • a claim overpayment to the Mortgagee, the Mortgagee must remit the
- 32                   overpaid amount immediately [to HUD](#) via Pay.gov; or
- 33                   • a claim underpayment to the Mortgagee, the Mortgagee must absorb the cost
- 34                   of the error or miscalculation.

35                   If the Mortgagee makes an error or miscalculates the amount of funds remitted to  
36                   HUD at the completion or termination of the Payment Supplement resulting in the  
37                   Mortgagee remitting less than the total remaining funds in the Payment Supplement

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1 Account to HUD, the Mortgagee must remit any remaining outstanding funds in the  
2 Payment Supplement Account immediately to HUD via Pay.gov.

3 The Mortgagee must include its review process for ensuring the accurate calculation  
4 of Payment Supplement in its QC Plan.

#### vii. Outside of the Waterfall Loan Modification

##### (A) Definition

7 An Outside of the Waterfall Loan Modification (OWL) is a permanent change in one  
8 or more terms of a Borrower's Mortgage that achieves a minimum reduction to the  
9 Borrower's monthly Principal & Interest (P&I) payment where the Borrower has  
10 been unresponsive.

##### (B) Eligibility

12 The Mortgagee must ensure that:

- 13 • the Borrower has been unresponsive to outreach by the Mortgagee during the  
14 Default episode to initiate or complete a Loss Mitigation Option;
- 15 • final documents to complete a Loss Mitigation Option have not been sent to  
16 the Borrower during the Default episode;
- 17 • the OWL at the Market Rate will achieve a reduction equal to or greater than  
18 \$20 and 5 percent of the P&I portion of the Borrower's monthly Mortgage  
19 Payment as of the date the OWL begins; and
- 20 • the Borrower receives at least one offer for an OWL per Default episode.

21 Non-Borrowers Who Acquired Title through an Exempted Transfer are not eligible  
22 for the OWL and must be evaluated for the other Permanent Home Retention  
23 Options.

##### (1) Mortgage Status

25 The Mortgagee must ensure that:

- 26 • the Mortgage is 120 or more Days Delinquent;
- 27 • at least six months have elapsed since the date of the first payment on the  
28 original Mortgage, as evidenced on HUD's Neighborhood Watch system,  
29 and a minimum of four Mortgage Payments have been paid by the  
30 Borrower on the current Mortgage, except for Disaster Home Retention  
31 Options;
- 32 • the first legal action to initiate foreclosure has not been completed; and
- 33 • the Arrearages do not exceed the equivalent of 12 months PITI.

##### (2) Property Condition

35 The Mortgagee must conduct any review it deems necessary, including a property  
36 inspection, when:



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- the Mortgagee receives notice from the Borrower, local government, or other third parties regarding adverse property condition; or
- the Property may be affected by a disaster event.

If the Mortgagee determines the property condition will adversely impact the long-term use of the Property or ability to support the debt, the Mortgagee is not required to review the Borrower for the OWL.

#### **(C) Standard**

The Mortgagee must review Borrowers who are 120 or more Days Delinquent and have not responded to outreach by the Mortgagee during the current Default episode to initiate an OWL.

The Mortgagee must first review the Borrower for a 30-year Standalone Loan Modification at the Market Rate. If the minimum payment reduction is not met, the Mortgagee must review the Borrower for a 40-year Standalone Loan Modification at the Market Rate.

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:
  - o an explanation of terms including the modified Mortgage Payment amount;
  - o the date the next payment is due;
  - o a statement that no lump sum payment is required;
  - o a statement that the Borrower is encouraged to contact the Mortgagee to discuss other Loss Mitigation Options that may provide further payment reduction and to reinstate their Mortgage;
  - o a statement that the OWL is contingent on the Mortgagee's review of title to ensure the FHA-insured Mortgage remains in first lien position;
  - o information for the Borrower to contact the Mortgagee; and
  - o a statement that the Borrower must sign and return the Loan Modification documents within 30 Days of receipt of the documents.

The Mortgagee does not have to contact the Borrower prior to reviewing the Borrower for the OWL or sending out the modification documents.

#### **(D) Terms**

The Mortgagee must ensure that:

- the OWL at the Market Rate will achieve a reduction equal to or greater than \$20 and 5 percent of the P&I portion of the Borrower's monthly Mortgage Payment as of the date the OWL begins;
- the modified Mortgage is a fixed rate Mortgage;
- the OWL fully reinstates the Mortgage; and

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- the OWL only capitalizes Arrearages, as calculated in Appendix 4.0, Part A: Arrearages.

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

HUD does not provide a model document for the OWL. The Mortgagee must ensure the FHA-insured Mortgage remains in first lien position and is legally enforceable.

#### **(E) Required Documentation**

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

Mortgagees are required to note in each individual Borrower's file if the Borrower does not qualify for the OWL.

#### **viii. Permanent Home Retention Option Failure Is New Default**

If the Borrower is in Default following the use of a Permanent Home Retention Option, the Mortgagee must treat this as a new Default episode.

#### **j. Home Disposition Options**

##### **i. Standard**

The Mortgagee must review Borrowers for Home Disposition Options who are unable to sustain the Mortgage with the assistance of a Loss Mitigation Home Retention Option.

The Home Disposition Options include:

- Equity Saver Sale (ESS);
- Pre-Foreclosure Sale (PFS); and
- Deed-in-Lieu (DIL).

The Mortgagee must notify the Borrower that they may be able to avoid foreclosure by selling their home with an ESS or PFS Option and must provide the Borrower the following information:

- a cover letter that explains the ESS and PFS Options that must include, at minimum:
  - o the ESS Option allows the Borrower to retain the net equity proceeds from the sale of the Property if the current market value of the Property is greater than the total outstanding amount owed on the Property;
  - o the PFS Option will allow the Borrower to sell the home for less than the amount owed if the current market value of the Property is less than the total outstanding amount owed on the Property;

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- o the Borrower is not prohibited from attempting to sell their home on their own (with or without the use of a licensed real estate professional), but it does not stop the initiation of Foreclosure unless they participate in the ESS or PFS Option; and
- o the Borrower may be responsible for the cost of an appraisal and title search;
- form HUD-90035, *Information Sheet: Pre-foreclosure Sale Procedure*;
- the total accumulated Mortgage Arrearages must not exceed the equivalent of six months PITI at the time of approval for the ESS or PFS Option; and
- the Borrower must retain a licensed real estate broker/agent and provide an executed Property listing agreement to the Mortgagee within seven Days of the date of approval to participate in the ESS or PFS Option.
- o The terms of the Property listing agreement must state that the Property will be listed on the Multiple Listing Service (MLS).

Where the Borrower has confirmed they are willing to attempt to sell the Property prior to the initiation of foreclosure, the Mortgagee must review the Borrower for an ESS and PFS, as appropriate.

If the Borrower advises that their financial situation has improved during the ESS, PFS, or DIL process and wants to retain the Property, the Mortgagee must review the Borrower for one additional Loss Mitigation Home Retention Option.

##### ii. Equity Saver Sale

###### (A) Definition

An Equity Saver Sale (ESS) refers to the sale of a Property with a Mortgage in Default where the current market value of the Property is greater than the total amount owed on the Mortgage, and any subordinate liens, and provides the Borrower with a marketing period to complete the sale and retain their equity.

###### (B) Standard

The Mortgagee must advise Borrowers who are unable to sustain the Mortgage with the assistance of a Loss Mitigation Home Retention Option of the availability of the ESS and the requirements for an ESS marketing period.

If the Borrower listed the Property for sale prior to the initiation of the first legal action to foreclose, the Borrower may elect to participate in the ESS to allow for additional time to market and sell the Property with a licensed real estate professional.

###### (C) Eligibility

The Mortgagee must ensure that:

- the total accumulated Mortgage Arrearages must not exceed the equivalent of six months PITI at the time of approval;
- first legal action to initiate foreclosure has not been completed; and

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- the Borrower agrees to:
  - o reimburse the Mortgagee for costs incurred for an Automated Valuation Model (AVM)/ Broker's Price Opinion (BPO) and title search if a contract of sale for the transaction closes. The cost may be added to the payoff statement of the Mortgage;
  - o provide the Mortgagee with a listing agreement executed by the Borrower and a licensed real estate agent/broker within seven Days of the date of the Mortgagee's approval of the ESS marketing period;
  - o include terms in the listing agreement that states that the Property will be listed on the MLS;
  - o perform routine Property maintenance (e.g., interior cleaning, lawn maintenance, etc.);
  - o make the Property available to show during the ESS marketing period; and
  - o if the Property is vacant or becomes vacant, notify the Mortgagee and secure the Property.

#### **(D) Equity Saver Sale Marketing Period**

The Mortgagee must provide eligible Borrowers a 120 Day ESS marketing period to market the Property for sale.

If, following the initiation of foreclosure, the Mortgagee has received an acceptable contract of sale that meets the ESS requirements, the ESS marketing period must only be issued for the time needed to close based on the close of escrow date on the contract of sale.

If the Borrower provides the Mortgagee with a signed contract of sale but settlement has not occurred by the end of the 120 Day marketing period, HUD provides an automatic two-month extension to the marketing period to complete the sales transaction.

#### **(E) ESS Agreement**

The Mortgagee must provide the ESS Agreement using methods providing confirmation or a timestamp of delivery to the Borrower, which must include:

- the marketing period start and end dates;
- the date by which the Borrower's sales contract must be executed and that the Mortgagee must receive the executed ESS from the Borrower within seven Days of the date of delivery of the ESS Agreement;
- acknowledgement that the ESS marketing period may be terminated after the Mortgagee's review of the list price and Property title;
- that if sufficient equity does not exist, the Mortgagee will contact the Borrower to discuss additional options including selling under the PFS Option; and
- agreement that the Borrower must:
  - o retain a licensed real estate broker/agent;

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- 1 o provide an executed Property listing agreement to the Mortgagee within
- 2 seven Days of the date of approval to participate in the ESS or PFS
- 3 Option. The terms of the Property listing agreement must state that the
- 4 Property will be listed on the MLS;
- 5 o reimburse the Mortgagee for the costs incurred for an AVM/BPO and title
- 6 search if a contract of sale transaction closes; and
- 7 o maintain and make the Property available to show during the ESS
- 8 marketing period.

#### 9 (F) Mortgage Review and Monitoring of ESS

10 After the ESS Agreement is signed, the Mortgagee must review the title and the list  
11 price of the Property to determine if sufficient equity exists. If equity is insufficient or  
12 title issues exist, the Mortgagee must contact the Borrower to discuss additional  
13 options including selling under the PFS Option.

14 The Mortgagee must contact the Borrower or their agent monthly during the ESS  
15 marketing period to verify the status of the Property listing.

#### 16 (G) Required Documentation

17 The Mortgagee must retain a copy of the ESS Agreement and the executed listing  
18 agreement in the Servicing File and Claim File, if applicable.

19 The Mortgagee must include monthly notations in the servicing record, documenting  
20 the Mortgagee's monitoring of the ESS with the Borrower during the ESS marketing  
21 period.

### 22 iii. Pre-Foreclosure Sales

#### 23 (A) Definition

24 A Pre-Foreclosure Sale (PFS), also known as a Short Sale, refers to the sale of real  
25 estate that generates proceeds that are less than the amount owed on the Property and  
26 in which the lien holders agree to release their liens and forgive the deficiency  
27 balance on the real estate. There are two PFS Options:

- 28 • Standard PFS; and
- 29 • PFS for Servicemembers.

#### 30 (B) Requirements for all PFS Options

##### 31 (1) PFS Outreach Requirements

##### 32 (a) Form HUD-90035, *Information Sheet: Pre-foreclosure Sale Procedure*

33 When the Mortgagee has identified a Borrower as a qualified candidate for a  
34 PFS or a Borrower has expressed an interest in participating, the Mortgagee

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1 must provide to the Borrower, electronically or by mail, form [HUD-90035](#),  
2 *Information Sheet: Pre-foreclosure Sale Procedure*, adding its toll-free or  
3 collect telephone number to the form.

#### 4 (b) Disclosure Requirements for PFS Transactions

5 Prior to approving the Borrower for the PFS Option, the Mortgagee must  
6 notify the Borrower of the following in writing:

- 7 • The Mortgage must be three or more full monthly payment due and  
8 unpaid (61 Days or more past due) on the date the Mortgagee approves  
9 the Borrower's participation in a Standard PFS.
- 10 • On the date the PFS for Servicemembers transaction closes, the  
11 Mortgage must in Default status (minimum 31 Days Delinquent).
- 12 • Until the PFS transaction has closed, the Borrower must maintain the  
13 Property in "ready to show" condition, make basic property repairs,  
14 and perform all normal property maintenance activities (e.g., interior  
15 cleaning, lawn maintenance, etc.).
  - 16 o The Borrower must report all damage and/or repair expenses  
17 resulting from fire, flood, or other natural causes immediately to  
18 the insurance company and Mortgagee.
- 19 • PFS transactions are reported to consumer reporting agencies and will  
20 likely affect the Borrower's ability to obtain another Mortgage and  
21 other types of credit.
- 22 • If the Borrower is a servicemember, it is recommended that the  
23 Borrower obtain guidance from their employer regarding the PFS's  
24 impact on their security clearance and employment.
- 25 • Where the Property is encumbered with a PACE obligation, the  
26 property sales contract must indicate whether the obligation will  
27 remain with the Property or be satisfied by the seller at, or prior to  
28 closing. Where the obligation will remain, all terms and conditions of  
29 the PACE obligation must be fully disclosed to the buyer in  
30 accordance with applicable law (state and local) and made part of the  
31 sales contract.

#### 32 (2) Required Documentation for PFS

33 The Mortgagee must maintain all required documentation in the Servicing File  
34 and the Claim File.

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### 1 (C) PFS Options

#### 2 (1) Standard PFS

##### 3 (a) Definition

4 A Standard PFS Option is available for Owner-Occupant and Non-Occupant  
5 Borrowers and does not require verification of hardship.

##### 6 (b) Standard PFS Standards

7 The Mortgagee must ensure that the Owner-Occupant or Non-Occupant  
8 Borrower meet the following requirements:

- 9 • the Borrower indicates a financial hardship affecting their ability to  
10 sustain the Mortgage;
- 11 • the Borrower must be 61 Days or more Delinquent on the FHA-insured  
12 Mortgage as of the date of the Mortgagee's approval; and
- 13 • the Borrower must have exhausted or been deemed ineligible for all  
14 permanent Loss Mitigation Home Retention Options.

##### 15 (c) Corporations or Partnerships Requesting PFS Option

16 The Mortgagee must submit a variance request for HUD approval via EVARS  
17 to use the PFS Option when the Property is owned by a corporation or  
18 partnership.

#### 19 (2) PFS for Servicemembers

##### 20 (a) Definition

21 A Streamlined PFS for Servicemembers is a Streamlined PFS that may be  
22 offered to servicemembers with PCS Orders who must relocate to a new duty  
23 station at least 50 miles away from their existing residence.

##### 24 (b) PFS for Servicemembers Standards

25 The Mortgagee must ensure that servicemembers meet the following  
26 requirements for a PFS for Servicemembers:

- 27 • The servicemember has PCS Orders to relocate to a duty station at  
28 least 50 miles away from their existing residence and provides the  
29 Mortgagee with a copy of such orders.
- 30 • The servicemember submits an affidavit certifying that:
  - 31 ○ the Property securing the FHA-insured Mortgage is or was their  
32 Principal Residence when the PCS orders were issued; and
  - 33 ○ new permanent housing has been or will be obtained as a result of  
34 the orders.

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1 On the date the PFS closing occurs, the Mortgagee must ensure that the  
2 Mortgage is in Default status (minimum 31 Days Delinquent).

#### 3 (D) Property Valuation

##### 4 (1) Appraisals

##### 5 (a) Standard

6 The Mortgagee must obtain a standard electronically-formatted appraisal  
7 performed by an [FHA Roster Appraiser](#) pursuant to the following  
8 requirements:

- 9 • the appraisal must contain an “As-Is” Fair Market Value (FMV) for  
10 the subject Property and must be completed in accordance with the  
11 Pre-foreclosure Sale Program requirements in [Appraiser and Property](#)  
12 [Requirements for Title II Forward and Reverse Mortgages](#)  
13 [\(II.D.12.e.iii\(I\)\)](#); and
- 14 • a copy of the appraisal must be provided to the homeowner, sales  
15 agent, or HUD, upon request.

##### 16 (b) Required Analysis and Reporting of a Property Assessed Clean 17 Energy Obligation

18 The Appraiser must review the sales contract, if applicable, and property tax  
19 records for the Property to determine the amount outstanding and the terms of  
20 the Property Assessed Clean Energy (PACE) obligation:

- 21 • if the Mortgagee notifies the Appraiser that the subject Property will  
22 remain subject to a PACE obligation;
- 23 • when the Appraiser observes that the property taxes for the subject  
24 Property are higher than average for the neighborhood and type of  
25 dwelling; or
- 26 • when the Appraiser observes energy-related building components or  
27 equipment or is aware of other PACE-allowed improvements during  
28 the inspection process.

29 The Appraiser must report the outstanding amount of the PACE obligation for  
30 the subject Property and provide a brief explanation of the terms.

31 Where energy and other PACE-allowed improvements have been made to the  
32 Property through a PACE program, and the PACE obligation will remain  
33 outstanding, the Appraiser must analyze and report the impact on value of the  
34 Property, whether positive or negative, of the PACE-related improvements  
35 and any additional obligation (i.e., the PACE special assessment).



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1                                   **(c) Appraisal Validity Period**

2                                   The as-is appraisal used for a PFS transaction is valid for 180 Days from the  
3                                   effective date of the appraisal report.

4                                   If a Mortgagee determines that a subsequent as-is appraisal is required, the  
5                                   Mortgagee may obtain a new as-is appraisal, even if the Property was  
6                                   appraised by an FHA Roster Appraiser within the preceding 180 Days. If a  
7                                   third or any subsequent appraisal is required, the Mortgagee must **submit a**  
8                                   **variance request for HUD approval via** EVARS.

9                                   **(d) Required Documentation**

10                                  The Mortgagee must retain a copy of the appraisal in the Servicing File and  
11                                  the Claim File.

12                                  **(2) Validation of Appraised Value**

13                                  **(a) Standard**

14                                  Prior to authorizing the marketing of the Property, the Mortgagee must review  
15                                  the appraisal to determine if further HUD approval is required to proceed with  
16                                  the as-is appraised value of the Property, as determined by the appraisal  
17                                  performed by an FHA Roster Appraiser.

18                                  The Mortgagee must obtain a Broker's Price Opinion (BPO) or Automated  
19                                  Valuation Model (AVM) if the as-is appraised value of the Property is:

- 20                                   • less than the unpaid principal balance by an amount of \$75,000 or  
21                                   greater; or
- 22                                   • less than 50 percent of the unpaid principal balance.

23                                  If a BPO or AVM is required, the Mortgagee must submit a variance **request**  
24                                  for HUD approval **via** EVARS, before proceeding with the PFS using the as-is  
25                                  appraised value.

26                                  If a BPO or AVM is not required, the Mortgagee is not required to obtain  
27                                  HUD approval.

28                                  **(b) Requirements for Variance Request for Property Valuation**

29                                  When required to submit a variance **request** to validate the as-is appraised  
30                                  value **via** EVARS, the Mortgagee must:

- 31                                   • note on the variance request the specific reason for the request; and
- 32                                   • upload the following attachments:
  - 33                                   ○ the as-is appraisal;
  - 34                                   ○ the BPO or AVM; and

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- 1                                   ○ any additional supporting documents needed for HUD review, if  
2                                   applicable.

3                                   The Mortgagee must obtain approval before authorizing the marketing of the  
4                                   Property.

##### 5                                   (c) Required Documentation

6                                   The Mortgagee must retain in the Claim File a copy of the BPO or AVM and  
7                                   the approved variance, if required.

##### 8                                   (3) List Price

9                                   The Mortgagee must ensure that the Borrower lists the Property for sale at no less  
10                                   than the “As-Is” value as determined by an appraisal completed in accordance  
11                                   with the requirements in **Pre-Foreclosure Sale Program (II.D.12.e.iii(I))**.

##### 12                                  (E) Property Condition

13                                  **A Property that is condemned or that the Mortgagee determined is abandoned is not**  
14                                  **eligible for PFS.**

##### 15                                  (1) Surchargeable Damage

##### 16                                  (a) Definition

17                                  Surchargeable Damage is damage to a Property caused by fire, flood,  
18                                  earthquake, tornado, hurricane, boiler explosion (for condominiums only), or  
19                                  Mortgagee Neglect.

##### 20                                  (b) Standard

21                                  The Mortgagee is responsible for the cost of Surchargeable Damage.

##### 22                                  (c) PFS Request for Damaged Property

23                                  The Mortgagee must **submit a variance** request **for HUD** approval via EVARS  
24                                  before approving the use of the PFS Option for a Property with Surchargeable  
25                                  Damage as follows:

- 26                                  • The Mortgagee must first obtain the Government’s Estimate of the  
27                                  Cost to Repair the Surchargeable Damage by contacting HUD’s  
28                                  Mortgagee Compliance Manager (**MCM**).
- 29                                  • Upon receipt of the Government’s Estimate of the Cost to Repair, the  
30                                  Mortgagee must submit form **HUD-90041**, *Request for Variance: Pre-*  
31                                  *foreclosure Sale Procedure*, via EVARS to obtain **HUD** approval prior  
32                                  to entering into a PFS Agreement with the Borrower. The Mortgagee

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1 must note on the variance request the specific reason for the request  
2 and attach any supporting documents needed for HUD's review.

#### 3 (d) "As-Is" Subject to Surchargeable Damage

4 If the Property is being sold "As-Is" subject to the Surchargeable Damage, the  
5 Mortgagee must deduct the Government's Repair Cost Estimate of the  
6 damage from its PFS Claim.

#### 7 (e) "As Repaired" Subject to Surchargeable Damage

8 If the Property is being sold "As Repaired" and funds for Surchargeable  
9 Damage repairs are escrowed or provided as a credit to the Borrower at  
10 closing, the Mortgagee must not include in its Net Sale Proceeds calculation  
11 the amount of the repair escrow or repair credit.

#### 12 (2) Damage other than Surchargeable Damage

13 If the damage is not considered Surchargeable Damage, the Mortgagee is not  
14 required to obtain HUD approval prior to approving the PFS Agreement.

#### 15 (3) Hazard Insurance Claim

16 Where applicable, the Mortgagee must work with the Borrower to file a hazard  
17 insurance claim and either:

- 18 • use the proceeds to repair the Property; or
- 19 • adjust the PFS Claim by the amount of the insurance settlement (Non-  
20 Surchargeable Damage) or the Government's Repair Cost Estimate.

#### 21 (4) Disclosure of Damage after PFS Approval

22 In the event the Mortgagee becomes aware that the Property has sustained  
23 significant damage after a Borrower has received the Approval to Participate  
24 (ATP) in the PFS Program, the Mortgagee must re-evaluate the Property to  
25 determine if it continues to qualify for the PFS Program or terminate participation  
26 if the extent of the damage changes the Property's FMV.

#### 27 (F) Condition of Title

28 The Mortgagee must ensure that all FHA-insured mortgaged Properties sold under the  
29 PFS Program have marketable title.

30 Before approving a Borrower for participation in the PFS Program, the Mortgagee  
31 must obtain a title search or preliminary report and determine whether the title is  
32 impaired by:

- 33 • unresolvable title problems;

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- liens that cannot be discharged as permitted by HUD; or
- a PACE obligation.

#### (G) Owner-Occupant Borrower Compensation

##### (1) Compensation Amount

HUD offers Owner-Occupant Borrowers who act in good faith and successfully sell their Properties using the PFS Option a compensation of up to \$7,500.

##### (2) Use of Compensation

The Owner-Occupant Borrower may:

- apply the entire amount of the \$7,500 compensation or a portion of it to resolve liens, including a PACE obligation;
- offset the sales transaction costs not paid by HUD (including a home warranty plan fee, costs of optional repairs, and the buyer's closing expenses); and/or
- use the compensation for relocation or transition assistance.

The Mortgagee must instruct the Closing Agent to:

- pay the HUD relocation or transition assistance from Net Sale Proceeds; and
- itemize on the Closing Disclosure or similar legal document any relocation or transition assistance received by HUD or from other entities.

##### (3) Required Documentation

The Mortgagee must ensure that the Closing Disclosure or similar legal document accurately reflects the use of any Borrower compensation amount.

#### (H) PFS Program Participation Requirements

##### (1) Approval to Participate

###### (a) Definition

A Pre-Foreclosure Sale (PFS) Approval to Participate (ATP) is an agreement signed by the Borrower to confirm their willingness to comply with the PFS Program requirements.

###### (b) Standard

After determining that a Borrower and Property meet the PFS eligibility requirements, the Mortgagee must notify the Borrower by sending:

- an ATP for the PFS Program (form [HUD-90045](#), *Approval to Participate: Pre-foreclosure Sale Procedure Property Sales*)

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1                                    *Information Property Occupancy & Maintenance*), including the date  
2                                    by which the Borrower's Sales Contract must be executed under [Pre-](#)  
3                                    [Foreclosure Sale Marketing Period](#) guidance; and

- 4                                    • a Pre-Foreclosure Sale Addendum.

5                                    The Mortgagee must send these documents to the Borrower via methods  
6                                    providing confirmation or a timestamp of delivery.

7                                    The Mortgagee must receive the signed ATP within 10 Days of the date of  
8                                    delivery of the ATP.

#### 9                                    (2) Use of **Licensed** Real Estate Broker

##### 10                                    (a) Borrower Retention of **Licensed** Real Estate Broker

11                                    The Borrower is responsible for retaining the services of a **licensed** real estate  
12                                    broker/agent within seven Days of the date of **delivery** of the ATP.

##### 13                                    (b) Required Listing Disclosure

14                                    The Mortgagee must ensure that the established Listing Agreement between  
15                                    the seller and the agent/broker includes the following cancellation clause:  
16                                    "Seller may cancel this Agreement prior to the ending date of the listing  
17                                    period without advance notice to the **agent/broker**, and without payment of a  
18                                    commission or any other consideration if the property is conveyed to the  
19                                    mortgage insurer or the mortgage holder. The sale completion is subject to  
20                                    approval by the mortgagee."

##### 21                                    (c) Real Estate Broker Duties

22                                    The real estate broker/agent must market the Property within the  
23                                    preestablished time frame stated in the ATP and list the Property in  
24                                    accordance with the [property valuation](#) requirements.

##### 25                                    (d) Real Estate Broker Conflicts of Interest

26                                    The real estate broker/agent selected must have no conflict of interest with the  
27                                    Borrower, the Mortgagee, the Appraiser or the buyer associated with the PFS  
28                                    transaction. The broker/agent must not claim a sales commission on a PFS of  
29                                    a broker's/agent's own Property or that of a spouse, sibling, parent, or child.

30                                    Any conflict of interest, appearance of a conflict, or self-dealing by any of the  
31                                    parties to the transaction is strictly prohibited.

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### (3) Arm's Length PFS Transaction

#### (a) Definition

An Arm's Length PFS Transaction is between two unrelated parties that is characterized by a selling price and other conditions that would prevail in an open market environment and without hidden terms or special understandings existing between any of the parties involved in the transaction.

#### (b) Standard

The Mortgagee must ensure that the following arm's length requirements apply to parties involved in PFS transactions:

- Any PFS proposed by the Borrower or their agent and approved by the Mortgagee must be an Arm's Length Transaction between the Borrower and prospective buyer, subject to the exceptions in the [Permitted Non-Arm's Length Transactions](#) section.
- Except for real estate agents and brokers representing a party to the PFS, no party that is a signatory on the sales contract, including addenda, can serve in more than one capacity.
- The broker hired to sell the Property must not share a business interest with the Mortgagee.
- If the Mortgagee knows that a shared interest exists between the Appraiser and sales agent, the Mortgagee must note this in the Servicing File and the Claim File.

#### (c) Permitted Non-Arm's Length Transactions

HUD permits non-Arm's Length PFS Transactions, to the extent necessary to comply with state law, where state law prohibits placement of an Arm's Length Transaction requirement on property sales.

If clauses (a) and (c) of the PFS Addendum are impermissible under state law, the Mortgagee may strike these clauses from the PFS Addendum prior to execution, provided that the transaction complies with all PFS Program requirements.

#### (d) Relocation Service Contribution

The Mortgagee may permit a relocation service affiliated with the Borrower's employer to contribute a fixed sum toward the proceeds of the PFS transaction without altering the arm's length nature of the sale, as long as the result is an outright sale of the Property and cancellation of the FHA mortgage insurance.

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#### (4) Mortgagee Monitoring of PFS

The Mortgagee must monitor the PFS to ensure the Borrower's compliance with the terms in the ATP and with all PFS Program requirements.

The Mortgagee must terminate a Borrower's participation in the PFS Program in the event of noncompliance.

#### (I) Pre-Foreclosure Sale Marketing Period

##### (1) Maximum Marketing Period

The Borrower has four months from the date of the Borrower's ATP to acquire a contract of sale.

##### (2) Minimum Marketing Period

The Mortgagee must ensure that PFS Properties are listed in the Multiple Listing Service (MLS) for a minimum of 15 Days before offers are evaluated. After this initial listing period, the broker/agent may evaluate offers as they are received.

This 15-Day minimum marketing period must follow the date of the Borrower's ATP.

##### (3) Extension to PFS Marketing Period

HUD provides an automatic two-month extension to the deadline to initiate foreclosure for completion of a PFS transaction **if** there is a signed contract of sale, but settlement has not occurred by the end of the fourth month following the date of the Borrower's ATP in the PFS Program.

##### (4) Monthly Review of Marketing Status

On a monthly basis, Mortgagees must review the Property's marketing status with the Borrower and/or real estate broker/agent.

##### (5) Property Inspection

The Mortgagee must inspect Properties during the PFS period if:

- the Property is [vacant](#);
- the Mortgagee has reason to suspect that the Property has become vacant;  
or
- the Borrower or Authorized Third Party has not maintained contact with the Mortgagee.

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### (6) Previously Initiated Foreclosures

The Mortgagee may not initiate a four-month PFS marketing period for a Property after the first legal action to initiate foreclosure has occurred.

If the Mortgagee has received an acceptable contract of sale that meets the PFS requirements, the PFS marketing period **must** only be issued for the time needed to close based on the close of escrow date on the contract of sale.

The Mortgagee may only cancel or temporarily suspend the foreclosure action where such suspension is permissible under state law.

### (J) Evaluation of Offers

#### (1) Standard

The listing real estate broker/agent must provide the Mortgagee with an offer that:

- yields the highest net return to HUD; and
- meets HUD's requirements for **an acceptable contract of sale**.

The listing real estate broker/agent must ensure that:

- all offers submitted to the Mortgagee for approval are signed by both the seller and the buyer prior to submission; and
- the [PFS Addendum](#) is signed by all the applicable parties (except for the Closing Agent).

#### (2) Back-up Offers

Once an offer has been submitted to the Mortgagee for approval, the listing real estate broker/agent must retain any offer that the seller elects to hold for "back-up" until a determination has been made on the previously submitted offer.

#### (3) Required Documentation

The listing real estate broker/agent must retain all offers received, including offers not submitted for approval, in accordance with state law.

### (K) Contract Approval by Mortgagee

#### (1) Standard

In reviewing the contract of sale, the Mortgagee must:

- ensure that the PFS sale is an outright sale of the Property and not a sale by assumption;
- review the sales documentation to determine there are:
  - no hidden terms or special agreements existing between any of the parties involved in the PFS transaction; and



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- no contingencies that might delay or jeopardize a timely settlement; and
- determine that the Property was marketed pursuant to HUD requirements and that the minimum required Tiered Net Sale Proceeds have been met.

The following anti-fraud measures apply to PFS transactions:

- A Mortgagee must not approve a Borrower for a PFS if the Mortgagee knows or has reason to know of a Borrower's fraud or misrepresentation of information.
- All parties involved in a PFS transaction must sign and date a PFS Addendum as a contingency for a PFS transaction to close.

#### (2) Sales Contract Review Period

After receiving an executed contract of sale for a Borrower approved to participate in the PFS Program, the Mortgagee must send to the Borrower form [HUD-90051](#), *Sales Contract Review: Pre-foreclosure Sale Procedure*, no later than five business days from the Mortgagee's receipt of an executed contract for sale.

#### (3) Net Sale Proceeds

##### (a) Definition

Net Sale Proceeds are the proceeds of a PFS sale, calculated by subtracting reasonable and customary closing and settlement costs, **and any outstanding balances on Partial Claim(s) or Payment Supplement(s)** from the property sales price.

##### (b) Standard

Regardless of the Property's sale price, a Mortgagee may only approve a PFS contract for sale if the Tiered Net Sale Proceeds are at or above HUD's minimum allowable thresholds. HUD's requirements for minimum Tiered Net Sale Proceeds **are** based on the length of time **the** Property has been competitively marketed for sale under an ATP as follows:

- Days 1-30 of marketing: The Mortgagee may only approve offers that will result in minimum Net Sale Proceeds of 88 percent of the "As-Is" appraised FMV.
- Days 31-60 of marketing: The Mortgagee may only approve offers that will result in minimum Net Sale Proceeds of 86 percent of the "As-Is" appraised FMV.
- Days 61-120 of marketing: The Mortgagee may only approve offers that will result in minimum Net Sale Proceeds of 84 percent of the "As-Is" appraised FMV.

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1 The Mortgagee has the discretion to deny or delay sales where an offer may  
2 meet or exceed the Net Sale Proceeds of 84 percent, if it is presumed that  
3 continued marketing would likely produce a higher sale amount.

4 The Mortgagee is liable for any FHA Insurance Claim Overpayment on a PFS  
5 transaction that closes with less than the required Tiered Net Sale Proceeds,  
6 unless a variance has been granted by HUD.

#### 7 (c) Settlement Costs

##### 8 (i) Allowable Settlement Costs

9 The Mortgagee may include the following settlement costs in its Net Sale  
10 Proceeds calculation:

- 11 • sales commission consistent with the prevailing rate but, not to exceed  
12 6 percent;
- 13 • real estate taxes pro-rated to the date of closing;
- 14 • local/state transfer tax stamps and other closing costs customarily paid  
15 by the seller, including the seller's costs for a title search and Owner's  
16 Title Insurance;
- 17 • compensation payable to the Owner-Occupant Borrower of \$7,500, or  
18 to be used to resolve junior liens;
- 19 • for Non-Occupant Borrowers, HUD will allow \$1,500 of Net Sale  
20 Proceeds to be used to resolve junior liens;
- 21 • the entire outstanding Partial Claim amount must be paid when  
22 calculating the Net Sale Proceeds. The seller, buyer, or other Interested  
23 Party may contribute the difference if the amount of Net Sale Proceeds  
24 falls below the allowable threshold; and
- 25 • up to 1 percent of the buyer's first mortgage amount if the sale  
26 includes FHA financing.

##### 27 (ii) Unacceptable Settlement Costs

28 The Mortgagee must not include the following costs in the Net Sale  
29 Proceeds calculation:

- 30 • repair reimbursements or allowances;
- 31 • home warranty fees;
- 32 • Discount Points or mortgage fees for non FHA-financing;
- 33 • Mortgagee's Title Insurance fee; and
- 34 • Third-Party Fees incurred by the Mortgagee or Borrower to negotiate a  
35 PFS.

#### 36 (d) Third-Party Fees

37 With the exception of reasonable and customary real estate commissions, the  
38 Mortgagee must ensure that third-party fees incurred by the Mortgagee or

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1 Borrower to negotiate a PFS are not included on the Closing Disclosure or  
2 similar legal documents unless explicitly permitted by state law.

3 The Mortgagee, its agents, or any outsourcing firm it employs must not charge  
4 any fee to the Borrower for participation in the PFS Program.

##### 5 (e) Partial Claim and Payment Supplement Subordinate Mortgages

6 The Mortgagee must ensure that all outstanding Partial Claims and Payment  
7 Supplements are paid in full.

8 The Mortgagee must deduct any outstanding balances on Partial Claim and  
9 Payment Supplement Subordinate Mortgages from the Net Sale Proceeds. The  
10 Mortgagee must ensure sufficient proceeds from the PFS satisfy all Partial  
11 Claim and Payment Supplement balances, and the funds are remitted  
12 directly to HUD's Loan Servicing Contractor.

13 If, after satisfying the Partial Claim or Payment Supplement, the Net Sale  
14 Proceeds fail to meet the applicable Tiered Net Sale Proceeds requirement, the  
15 Mortgagee must request and obtain approval from HUD via EVARS before  
16 closing.

##### 17 (4) Title I Liens

18 If the Mortgagee discovers that a Borrower has a HUD Title I Mortgage secured  
19 by the Property, the Mortgagee must contact the Title I subordinate lien holder to  
20 advise the Borrower's participation in a PFS. HUD may require the Mortgagee to  
21 negotiate the release of the lien in order to proceed with a PFS.

22 If the Title I Mortgage has been assigned to HUD, the Mortgagee must contact  
23 HUD's Financial Operations Center (III.C).

##### 24 (5) Discharge of Junior Liens

25 The Mortgagee must provide for the discharge of junior liens as follows:

- 26 • The Borrower must satisfy or obtain release of liens.
- 27 • If the Owner-Occupant Borrower receives compensation (\$7,500), this  
28 compensation may be applied toward discharging liens.
- 29 • If no other sources are available, the Non-Occupant Borrower may  
30 obligate up to an additional \$1,500 from sale proceeds toward discharging  
31 liens or encumbrances.

##### 32 (6) Section 235 Recapture

33 The Mortgagee must first determine if the Mortgage is subject to recapture as  
34 referenced in Section 235 Mortgages. If a recapture amount is owed to HUD, the

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1 Mortgagee must contact HUD's [Loan Servicing Contractor](#) prior to approving the  
2 PFS.

#### 3 (L) Closing and Post-closing Responsibilities

##### 4 (1) Mortgagee Responsibilities Prior to Closing

5 The Mortgagee must provide the Closing Agent with:

- 6 • form [HUD-90052](#), *Closing Worksheet: Pre-foreclosure Sale Procedure*,  
7 which lists all amounts payable from Net Sale Proceeds; and
- 8 • the PFS Addendum that was signed by:
  - 9 ○ buyers;
  - 10 ○ buyers' agent;
  - 11 ○ sellers;
  - 12 ○ sellers' agent (listing agent); and
  - 13 ○ transaction facilitators/negotiators, if applicable.

14 The Mortgagee must receive from the Closing Agent:

- 15 • a copy of the Closing Disclosure or similar legal document which includes  
16 a calculation of the actual Net Sale Proceeds, and
- 17 • the executed form [HUD-90052](#), which must be included in the Servicing  
18 File and the Claim File.

19 The Mortgagee must review the Final Terms of the PFS Transaction to ensure  
20 that:

- 21 • the final terms of the PFS transaction are consistent with the purchase  
22 contract;
- 23 • only allowable settlement costs have been deducted from the seller's  
24 proceeds; and
- 25 • the Net Sale Proceeds will be equal to or greater than the allowable  
26 thresholds.

##### 27 (2) Closing Agent Responsibilities after Final Approval

28 Once the Mortgagee gives final approval for the PFS and the settlement occurs,  
29 the Closing Agent must:

- 30 • pay the expenses out of the Net Sale Proceeds and forward the Net Sale  
31 Proceeds to the Mortgagee;
- 32 • forward a copy of the Closing Disclosure or similar legal document to the  
33 Mortgagee to be included in the Servicing File and the Claim File no later  
34 than three business days after the PFS transaction closes; and
- 35 • sign the PFS Addendum on or before the date the PFS transaction closes,  
36 unless explicitly prohibited by state statute.

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### (3) Satisfaction of Mortgage Debt

Upon receipt of the portion of the Net Sale Proceeds designated for Mortgage satisfaction, the Mortgagee must satisfy the Mortgage debt and may file a [claim for mortgage insurance benefits](#).

### (M) Early Termination of PFS Program Participation

#### (1) Standard

##### (a) Borrower-Initiated Termination

The Mortgagee must permit a Borrower to voluntarily terminate participation in the PFS Program at any time.

##### (b) Mortgagee-Initiated Termination

The Mortgagee may terminate a Borrower's PFS Program participation at its discretion for any of the following reasons:

- discovery of unresolvable title problems;
- determination that the Borrower is not acting in good faith to market the Property;
- significant change in property condition or value; or
- the Mortgagee has approved the Borrower for a Permanent Home Retention Option after the Borrower advised the Mortgagee that their financial situation has improved, and they want to retain their home.

##### (c) Notification of PFS Program Participation Termination

The Mortgagee must send the Borrower a written notice providing the reason for terminating their PFS program participation and the termination date of the PFS.

#### (2) Required Documentation

The Mortgagee must retain a copy of the Notification of PFS Program Participation Termination in the Servicing File.

### (N) Failure to Complete a PFS Transaction

At the expiration of the PFS marketing period, should the Borrower be unable to complete a PFS transaction, the Mortgagee must re-evaluate available Loss Mitigation Options as follows:

- If the Borrower's financial condition has improved to the point that reinstatement is a viable option, review the Borrower's eligibility for one of the Loss Mitigation Home Retention Options; and
- If reinstatement is not feasible, review the Borrower for a DIL of Foreclosure.

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1           Within 90 Days after the expiration of the PFS marketing period, the Mortgagee must  
2           approve the Borrower for an alternate Loss Mitigation Option or complete the first  
3           legal action to initiate foreclosure.

4           Should additional time be needed to complete a DIL or to initiate foreclosure,  
5           Mortgagees must submit a request for an extension of time for **HUD approval** via  
6           EVARS.

#### **(O) Extensions of Foreclosure Time Frame for PFS**

##### **(1) Standard**

7           After PFS early termination or option failure, HUD provides an automatic 90-Day  
8           extension to the [deadline](#) to complete a Loss Mitigation Option or to perform the  
9           first legal action initiating foreclosure. The automatic 90-Day extension begins  
10          the Day after the PFS ATP is terminated or expires.

11          If the Mortgagee has not yet received the Net Sale Proceeds from the Closing  
12          Agent and the automatic 90-Day extension is nearing expiration, the Mortgagee  
13          must submit a request for extension **for HUD approval** via EVARS no later than  
14          10 Days before the 90-Day extension expires.

##### **(2) Required Documentation**

15          The Mortgagee must **retain in the Servicing File and the Claim File**  
16          **documentation of any extensions received from HUD.**

#### **(P) Deficiency Judgments**

17          If a foreclosure occurs after the Borrower unsuccessfully participated in the PFS  
18          process in good faith, neither the Mortgagee nor HUD will pursue the Borrower for a  
19          deficiency Judgment.

#### **(Q) PFS Incentive**

20          The Mortgagee may claim an [incentive](#) for each completed PFS transaction that  
21          complies with all HUD PFS requirements.

#### **(R) Mortgage Insurance Termination**

22          The Mortgagee must not submit a mortgage insurance termination on PFS  
23          transactions. HUD **will** only pay FHA mortgage insurance benefits when the status of  
24          the mortgage insurance is “active.”

25          The Mortgagee must report the PFS Sale to consumer reporting agencies.

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#### iv. Deed-in-Lieu of Foreclosure

##### (A) Definition

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

##### (B) Disclosure Requirements for DIL

Prior to approving a Borrower for a DIL, the Mortgagee must notify the Borrower in writing of the following:

- The Mortgage must be in Default on the date the DIL special warranty deed is executed, pursuant to Section 204 of the National Housing Act (12 U.S.C. § 1710).
- DIL transactions are generally reported to consumer reporting agencies, and will likely affect the Borrower's ability to obtain another Mortgage and other types of credit.
- If the Borrower is a servicemember, it is recommended that the Borrower obtain guidance from their employer regarding the DIL's impact on their security clearance and employment.

##### (C) DIL Options

There are two types of DIL options: Standard DIL and DIL for Servicemembers.

##### (1) Standard DIL

A Standard Deed-in-Lieu (DIL) is a DIL transaction for Owner-Occupant Borrowers and Non-Occupant Borrowers.

The Mortgagee must ensure that:

- the Borrower has attempted to complete an ESS or PFS;
- the Borrower and the Property meet the requirements for an ESS or a Standard PFS; and
- the Mortgage is 61 Days or more Delinquent as of the date of the Mortgagee's approval.

##### (2) DIL for Servicemembers

A DIL for Servicemembers is a DIL for servicemembers with PCS orders who must relocate to a new duty station at least 50 miles away from their existing residence, without the Mortgagee verifying hardship.

The Mortgagee must ensure that:

- Servicemembers and the Property meet the requirements for a [PFS for Servicemembers](#);

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- 1 • the Mortgage is 31 Days or more Delinquent on the date the DIL special
- 2 warranty deed is executed; and
- 3 • Servicemembers have attempted to complete a PFS Option.

#### (3) DIL Exceptions for Borrowers with More than One FHA-Insured Mortgage

6 The Mortgagee must submit a request for HUD approval via EVARS to offer a  
7 DIL Option to a Borrower who owns more than one FHA-insured Property.

#### (4) Condition of Title

9 The Borrower or Mortgagee must convey a clear and marketable title to the  
10 Secretary. The Mortgagee must obtain a title search or preliminary report and  
11 determine whether the title is impaired by:

- 12 • unresolvable title problems;
- 13 • liens that cannot be discharged as permitted by HUD; or
- 14 • a PACE obligation.

#### (5) Deficiency Judgment

16 HUD will not accept a DIL when it has elected to pursue a deficiency Judgment  
17 against the Borrower.

#### (D) DIL Owner-Occupant Borrower Relocation Assistance

##### (1) Amount of Relocation Assistance

20 HUD offers Owner-Occupant Borrowers up to \$7,500 in relocation assistance  
21 upon vacating the Property and satisfaction of the requirements of the DIL  
22 Agreement. HUD will not pay this relocation assistance if the Property is  
23 occupied at conveyance.

##### (2) Use of Relocation Assistance

25 The Owner-Occupant Borrower may apply the entire amount of the relocation  
26 assistance or a portion of it to resolve liens, including PACE obligation liens.

#### (E) DIL Agreement

##### (1) Standard

29 The Borrower and the Mortgagee must execute a DIL Agreement in writing.  
30 HUD does not require a specific format for documenting a DIL Agreement. The  
31 Mortgagee must ensure that the DIL documentation complies with all applicable  
32 laws and regulations.



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### (2) DIL Agreement Terms

The Mortgagee must ensure that the DIL Agreement contains the following:

- certification that the Borrower does not own other Property subject to a Mortgage insured by or held by HUD;
- the Transfer Date;
- notification of possible income tax consequences;
- acknowledgment that Borrowers who comply with all requirements of the Agreement will not be pursued for deficiency Judgments;
- a statement describing the physical condition in which the Property will be conveyed;
- agreement with the Borrower to convey the Property vacant and free of Personal Property, unless HUD has approved an Occupied Conveyance;
- itemization of keys, built-in-fixtures, and equipment to be delivered by the Mortgagee on or before the Transfer Date;
- evidence that utilities, assessments, and HOA dues are paid in full by the Transfer Date, unless otherwise agreed to by all parties; and
- the amount of relocation assistance payable to and/or on behalf of the Owner-Occupant Borrower will not exceed \$7,500.

### (3) Required Documentation

The Mortgagee must retain a copy of the executed DIL Agreement in the Servicing File and the Claim File.

## (F) DIL Conveyance to HUD

### (1) Mortgage in Default

The Mortgagee must ensure that the Mortgage is in Default when the DIL is recorded and the Property is conveyed to HUD.

### (2) Discharge of Liens

The Mortgagee must provide for the discharge of liens as follows:

- The Mortgagee must complete a title search and ensure the release of liens and/or endorsements to the title policy are obtained.
- HUD will not accept titles subject to most liens, including IRS and HOA liens. HUD will allow liens securing repayment of Section 235 assistance payments, Partial Claim advances, and Title I liens.
- HUD will allow a notice of lien recorded in the land records securing repayment of a PACE obligation that may only become subject to an enforceable claim (i.e., a lien) for delinquent regularly scheduled PACE special assessment payments and otherwise complies with the eligibility and acceptability criteria for Properties encumbered with a PACE obligation provided in [PACE Obligation Review](#).

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- If the Owner-Occupant Borrower receives **relocation assistance**, this **assistance** may be applied toward discharging liens.

#### (3) Special Warranty Deed

The Borrower and the Mortgagee must convey the Property through a special warranty deed and, when possible, the Borrower must convey title directly to HUD. The Mortgagee must cancel and surrender to the Borrower the original credit instrument, indicating that the Mortgage has been satisfied.

If it is necessary to convey title to the Mortgagee, and then to HUD, the Mortgagee must document the reason in the Servicing File and the Claim File.

#### (4) Conveyance Time Frame

The Mortgagee must record the special warranty deed and deliver the original, recorded deed to HUD's **MCM** within 45 Days of the date the clear and marketable title was conveyed to the Secretary.

#### (5) Occupied Properties

The Mortgagee must ensure that the Property is vacant at the time of conveyance.

HUD will not accept a DIL if the collateral Property is occupied at the time of conveyance to HUD, unless authorized for [Occupied Conveyance](#).

#### (6) Option Not to Convey

The Mortgagee may elect not to convey title to HUD and to terminate the contract of mortgage insurance. If this occurs, the Mortgagee must use form HUD-27050-A, *Insurance Termination*, and select Voluntary Termination (Term Type 21) in [FHAC](#) to notify HUD.

#### (G) DIL Incentive

The Mortgagee may submit a claim for an [incentive](#) for each completed DIL transaction that complies with all HUD DIL requirements.

#### (H) DIL Foreclosure Time Frames

The Mortgagee must complete the DIL or initiate foreclosure within six months of the date of Default, unless the Mortgagee **has** qualified for an automatic extension or has received an extension approved by **HUD** via EVARS. If the DIL follows a failed PFS, the DIL must be completed or foreclosure initiated within 90 Days of the failure.

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### (I) Reporting to Consumer Reporting Agencies and the IRS

The Mortgagee must not report DIL transactions to consumer reporting agencies as foreclosures.

#### k. Loss Mitigation Incentives and Title Reimbursement (03/31/2022)

##### i. Loss Mitigation Incentives

The Mortgagee may claim an [incentive](#) for completion of a permanent Loss Mitigation Option if:

- three or more full monthly payments are Delinquent (i.e., 61 Days or more Delinquent) when the Permanent Home Retention Option or Home Disposition Option is approved, except the Mortgage must be 31 Days or more Delinquent:
  - o on the closing date for PFS for Servicemembers or
  - o on the for date the DIL special warranty deed is executed for DIL for Servicemembers;
- the Loss Mitigation Option was completed in accordance with FHA requirements; and
- the correct and complete claim is submitted to HUD within 60 Days of the execution date of the Permanent Home Retention Option or Home Disposition Option.

The Mortgagee may submit a [claim](#) for an incentive for the successful completion of the approved Loss Mitigation Options, including for Loss Mitigation Options associated with a PDMDA (also referred to as Disaster options), listed below.

Loss Mitigation Option	Mortgagee Incentive
Partial Claim	\$500 for a Partial Claim
Loan Modification (including OWL)	\$750 for a Loan Modification *Additionally, the Mortgagee is eligible to be reimbursed up to \$250 for fees associated with title search, title policy, and/or recordation.
Payment Supplement	\$1,750
PFS	\$1,000
DIL	\$250

##### ii. Reimbursement for Loan Modification Title Search and Recordation

The Mortgagee may submit a [claim](#) to be reimbursed up to \$250 for fees associated with title search, title policy, and/or recordation associated for an executed loan modification where:

- three or more full monthly payments are Delinquent (i.e., 61 Days or more Delinquent) when the Standalone Loan Modification, Combination Loan Modification and Partial Claim, or OWL is approved;

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- the Loss Mitigation Option was completed in accordance with FHA requirements; and
- the correct and complete claim for \$250 is submitted to HUD within 120 Days of the execution date of the loan modification, or loan modification as part of a Combination Loan Modification and Partial Claim.

The claim for reimbursement up to \$250 for fees associated with title search, title policy, and/or recordation may be included with the claim for a Mortgagee incentive. Mortgagees that do not qualify for an incentive may still submit a claim for this reimbursement.

#### I. Presidentially-Declared Major Disaster Areas (05/01/2024)

##### i. Disaster Declarations

Under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, the President has authority to declare a major disaster for any area which has been affected by damage of sufficient severity and magnitude to warrant major disaster assistance. Disaster declarations and information regarding available federal assistance for each disaster incident are posted on the [Federal Emergency Management Agency's \(FEMA\) website](#).

When the President declares a major disaster, the Mortgagee must implement the procedures set forth in this section for each designated area that is eligible for federal disaster assistance, designated for public assistance, individual assistance, or both, unless otherwise specified.

##### ii. Moratorium on Foreclosures

###### (A) Standard

Mortgagees must attempt to contact Borrowers whose Property is located in a PDMDA to notify the Borrower that disaster loss mitigation assistance is available. If the first legal action has been completed or the Borrower has been referred to foreclosure, the Mortgagee must notify the Borrower that a foreclosure moratorium is in place for 90 Days beginning on the date of the disaster declaration for that area.

FHA-insured Mortgages secured by Properties located in a PDMDA will be subject to a moratorium on foreclosures following the disaster declaration. The foreclosure moratorium is:

- effective for a 90-Day period beginning on the date of the disaster declaration for that area (HUD may communicate further specific guidance for extension of moratorium periods for individual disasters);
- applicable to the initiation of foreclosures and foreclosures already in process; and

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- 1 • considered an additional period of time approved by HUD for the Mortgagee  
2 to take loss mitigation action or commence foreclosure.

3 HUD provides the Mortgagee an automatic 90-Day extension from the date of the  
4 moratorium expiration date to evaluate the Borrower under [HUD's Loss Mitigation](#)  
5 [for Borrowers in PDMDAs](#) or commence or recommence foreclosure action. The  
6 Mortgagee may also submit a request for an additional extension to HUD's  
7 foreclosure-related deadlines via HUD's EVARS when prohibited from performing a  
8 required action due to the foreclosure moratorium.

##### 9 (B) Required Documentation

10 The Mortgagee must retain in the Servicing File and the Claim File, if applicable, any  
11 approved extensions from HUD related to a foreclosure moratorium.

##### 12 (C) Hazard or Flood Insurance Settlement

13 The Mortgagee must take no action to initiate or complete foreclosure proceedings,  
14 after expiration of a disaster-related foreclosure moratorium, if such action will  
15 jeopardize the full recovery of a hazard or flood insurance settlement.

#### 16 iii. Monitoring of Repairs to Substantially Damaged Homes

##### 17 (A) Definition

18 A building is considered to be "Substantially Damaged," as defined in the National  
19 Flood Insurance Program (NFIP) regulations, when "damage of any origin is  
20 sustained by a structure whereby the cost of restoring the structure to its before  
21 damaged condition would equal or exceed 50 percent of the market value of the  
22 structure before the damage occurred."

##### 23 (B) Standard

24 The Mortgagee must take appropriate actions to ensure that repairs to Substantially  
25 Damaged Properties comply with the federal building elevation standards, including  
26 those established by FEMA. The Mortgagee must ensure compliance with any higher  
27 applicable building elevation standard adopted by the state or local government.

#### 28 iv. Loss Mitigation for Borrowers in PDMDAs

29 Mortgagees must attempt to contact Borrowers whose Property is located in a PDMDA to  
30 notify the Borrower that disaster loss mitigation assistance is available.

31 If the Borrower is experiencing a Financial Hardship due to the disaster, the Mortgagee  
32 must offer loss mitigation assistance, where appropriate.

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#### (A) Disaster Forbearance for Borrowers in PDMMDAs

The Mortgagee may offer a Disaster Forbearance, which allows for one or more periods of reduced or suspended payments without specific terms of repayment, to a Borrower with a mortgaged Property or place of employment located within a PDMMDA.

The Mortgagee must ensure the Disaster Forbearance meets the requirements for [Forbearances](#) and:

- the first legal action to initiate foreclosure has not been completed;
- the Mortgagee must waive late fees when the Borrower is on a Disaster Forbearance; and
- the requirements in the Disaster Forbearance Time Frames are met.

#### (B) Disaster Forbearance Time Frames

Borrower Characteristics	Requirements	Initial Disaster Forbearance Period	Additional Disaster Forbearance Period	Maximum Disaster Forbearance Period (for each PDMMDA)
Borrower has been in contact with Mortgagee	The Mortgagee must offer the Borrower on a Disaster Forbearance if: <ul style="list-style-type: none"><li>• the Property or Borrower's place of employment is in a PDMMDA;</li><li>• the Mortgagee has made contact with the Borrower;</li><li>• regardless of occupancy status; and</li><li>• regardless of previous delinquency.</li></ul>	Up to 6 months	Up to 6 months	Up to 12 months
Mortgagee has not established contact with the Borrower	The Mortgagee may place a Borrower on an initial 3 month Disaster Forbearance if: <ul style="list-style-type: none"><li>• the Property is in a PDMMDA;</li><li>• the Mortgagee has been unable to contact the Borrower;</li><li>• the Mortgagee was current or no more than 2 months</li></ul>	Up to 3 months	Up to 9 months	Up to 12 months

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<b>Borrower Characteristics</b>	<b>Requirements</b>	<b>Initial Disaster Forbearance Period</b>	<b>Additional Disaster Forbearance Period</b>	<b>Maximum Disaster Forbearance Period (for each PDMDA)</b>
	<p>Delinquent prior to the disaster event; and</p> <ul style="list-style-type: none"> <li>the Mortgage goes into Default in the 90 Days after the month the PDMDA was declared.</li> </ul>			
Borrower on a Forbearance prior to the PDMDA	The Mortgagee must terminate the Borrower’s current Forbearance at the end of the month the PDMDA was declared and place the Borrower on an initial 6 month Disaster Forbearance starting the following month.	Up to 6 months	Up to 6 months	Up to 12 months
Borrower who requires additional time to complete substantial repairs to Property	<p>The Mortgagee may provide extended additional Disaster Forbearances periods for Borrowers in PDMDAs while they are pursuing substantial home repairs related to the disaster, provided that:</p> <ul style="list-style-type: none"> <li>the Property was Substantially Damaged by the disaster;</li> <li>the forbearance period does not exceed the estimated time needed to complete home repairs; and</li> <li>the total forbearance period does not exceed 24 months.</li> </ul>	Up to 6 months	Up to 18 months	Up to 24 months

1 **(C) Disaster Repayment Plan**

2 For Borrowers in or impacted by a PDMDA, the Mortgagee must review the  
 3 Borrower for a [Repayment Plan](#).

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#### **(D) Permanent Home Retention Options**

For Borrowers in or impacted by a PDMMA, the Mortgagee must use [Determining Appropriate Permanent Home Retention Option](#) to offer the Borrower a Permanent Home Retention Option, including a TPP where required, with the following exceptions:

- The limit on receiving no more than one Permanent Home Retention Option within 18 months does not apply.
- No minimum number of months or Mortgage Payments apply.
- If the Property was Substantially Damaged, the Property repairs must be completed to a habitable condition.
- The Mortgagee must waive late fees when the Borrower is on a Disaster Forbearance.

The Borrower can only receive one Permanent Home Retention Option for each PDMMA.

The Mortgagee must ensure the Permanent Home Retention Option is reported with the appropriate Disaster Delinquency/Default Status (DDS) Code.

#### **(E) Terms of the Mortgage are Unaffected**

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

#### **(F) Home Disposition Options**

[Equity Saver Sale \(ESS\)](#), [Pre-Foreclosure Sale \(PFS\)](#), or [Deed-in-Lieu \(DIL\)](#) of Foreclosure are also available to Borrowers with a mortgaged Property or place of employment located within a PDMMA, where the requirements for [Home Disposition Options](#) are met.

#### **(G) Suspension of Reporting to Consumer Reporting Agencies**

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

Mortgagees are required to comply with the credit reporting requirements of the Fair Credit Reporting Act (FCRA); however, FHA encourages Mortgagees to consider the impacts of a disaster on Borrowers' financial situations and any flexibilities a



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1 Mortgagee may have under the FCRA when taking any negative credit reporting  
2 actions.

3 **m. Presidentially-Declared COVID-19 National Emergency (01/01/2025) [The policy in**  
4 **this section will be sunset as of the effective date of the new Loss Mitigation Options]**

5 **Loss Mitigation for Borrowers Affected by the COVID-19 National Emergency [add**  
6 **sunset date here]**

7 The following loss mitigation options are available to assist Borrowers:

- 8 • COVID-19 Forbearance;
- 9 • COVID-19 Advance Loan Modification;
- 10 • COVID-19 Recovery Standalone Partial Claim;
- 11 • COVID-19 Recovery Modification;
- 12 • COVID-19 Pre-Foreclosure Sale; and
- 13 • COVID-19 Deed-in-Lieu of Foreclosure.

#### 14 **i. COVID-19 Advance Loan Modification (Pre-Waterfall Step)**

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

17 [Non-Borrowers Who Acquired Title through an Exempted Transfer](#) are not eligible for  
18 the COVID-19 ALM and must be evaluated for FHA's standard [Loss Mitigation Options](#).

#### 19 **(A) Definition**

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

#### 23 **(B) Eligibility**

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

25 The Borrower must be 90 or more Days Delinquent.

26 A 30-year Loan Modification at the most recent Freddie Mac Weekly Primary  
27 Mortgage Market Survey (PMMS) Rate rounded to the nearest one-eighth of 1  
28 percentage point (0.125 percent) will achieve a minimum 25 percent reduction in the  
29 Borrower's monthly P&I.

#### 30 **(C) Standard**

31 Mortgagees must review Borrowers who are 90 or more Days delinquent for a  
32 COVID-19 ALM through April 30, 2025.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing

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1 If the Borrower is eligible, the Mortgagee must:

- 2 • prepare and send out the Loan Modification documents to the Borrower; and
- 3 • provide a cover letter that includes:
  - 4 ○ an explanation of terms including the modified Mortgage Payment
  - 5 amount;
  - 6 ○ the date the next payment is due;
  - 7 ○ a statement that no lump sum payment is required;
  - 8 ○ a statement that if the Borrower does not accept this offer, this does not
  - 9 prevent them from obtaining another loss mitigation option to bring their
  - 10 Mortgage current;
  - 11 ○ a statement that the Borrower must sign and return the Loan Modification
  - 12 documents within 30 Days of receipt of the documents and no later than
  - 13 May 30, 2025; and
  - 14 ○ information for the Borrower to contact the Mortgagee, if needed.

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

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

#### 20 **(D) Terms**

21 The Mortgagee must ensure that:

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

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing

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

#### 4 (E) Required Documentation

##### 5 (1) Servicing File

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

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

##### 11 (2) Reporting to HUD

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

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

#### 17 ii. COVID-19 Recovery Loss Mitigation Options

##### 18 (A) Definition

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

##### 23 (B) Standard

24 The Mortgagee must review eligible Borrowers for the COVID-19 Recovery Options  
25 through April 30, 2025. Eligible Borrowers may receive more than one COVID-19  
26 Recovery Option.

27 [Non-Borrowers Who Acquired Title through an Exempted Transfer](#) are not eligible  
28 for the COVID-19 Recovery Options and must be evaluated for FHA's standard [Loss](#)  
29 [Mitigation Options](#).

30 For eligible Borrowers, the Mortgagee must review all Borrowers who are in Default  
31 or verified to be in [Imminent Default](#), as defined in sections III.A.2.g(i–iii) only,  
32 regardless of the reason for Default.

33 The Mortgagee must adhere to the requirements under [Early Default Intervention](#).

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing

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1 The Borrower must be at least three or more full monthly payments due and unpaid  
2 (61 Days Delinquent) at the time the permanent loss mitigation option is approved.  
3 The Mortgagee may consider a Borrower who has completed a Trial Payment Plan  
4 (TPP) and remains in Default as meeting this requirement.

5 For Borrowers in Imminent Default:

- 6 • the Mortgagee must ensure the Borrower meets the requirements for [Imminent](#)  
7 [Default](#) as defined in sections III.A.2.g(i–iii) only; or
- 8 • the Mortgagee may consider that a Borrower has met the requirements for  
9 Imminent Default if the Borrower:
  - 10 ○ previously qualified for or used HAF funds to reinstate their Mortgage;
  - 11 and
  - 12 ○ attests that they cannot resume their monthly Mortgage Payments.

13 The Mortgagee may offer Borrowers for the current Default episode an [Informal or](#)  
14 [Formal Forbearance](#) prior to reviewing the Borrower for a COVID-19 Recovery  
15 Home Retention Option.

16 For Informal or Formal Forbearance, the Mortgagee may verbally verify the hardship  
17 and financial information with the Borrower. An analysis of Borrower financial  
18 information is not required, and no additional documentation is required.

19 If the Borrower’s financial hardship is due to unemployment regardless of occupancy  
20 status, the Mortgagee must offer the SFB-Unemployment to eligible Borrowers prior  
21 to reviewing the Borrower for a COVID-19 Recovery Home Retention Option. The  
22 Mortgagee must ensure all requirements for a [Special Forbearance-Unemployment](#)  
23 are met except for:

- 24 • the [Defaulted Mortgage Status](#);
- 25 • the occupancy requirement, the Mortgagee must consider eligible Non-  
26 Occupant Borrowers for the Special Forbearance (SFB)-Unemployment; and
- 27 • the Mortgagee may verbally verify the unemployment status, and no  
28 additional documentation or analysis of financial information is required.

29 The Mortgage must meet the following amended Default Mortgage Status conditions  
30 at the time the Mortgagee approves the SFB-Unemployment Option:

- 31 • be no more than 12 months due and unpaid; and
- 32 • not be in foreclosure, or foreclosure action has been suspended or canceled.

33 The Mortgagee must complete a loss mitigation option for Borrowers no later than:

- 34 • 120 Days from the earlier of the date of completion or expiration of the  
35 Borrower’s forbearance;
- 36 • 120 Days from the date of the Borrower’s request for loss mitigation  
37 assistance; or
- 38 • 90 Days from the completion or failure of a TPP.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing

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1 Completion of a loss mitigation option is the date the loss mitigation option  
2 agreement is executed by all required parties.

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

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

#### 9 (1) Borrowers in Foreclosure

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

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

#### 20 (2) Homeowner Assistance Fund

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

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

#### 28 (3) Mortgagee Incentives for COVID-19 Recovery Options

29 The Mortgagee may submit a claim for an incentive for the successful completion  
30 of a COVID-19 Recovery Option. The Mortgagee may only file a claim for  
31 incentives if the correct and complete claim is submitted to HUD within 60 Days  
32 of the execution date of the COVID-19 Recovery Option.

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

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing

Loss Mitigation Option	Compensation
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	\$1,750
COVID-19 PFS	\$1,000
COVID-19 DIL	\$250

#### (4) Required Information for an Evaluation for COVID-19 Recovery Options

For the COVID-19 Recovery Loss Mitigation Options, Borrowers who request loss mitigation:

- Borrowers in Default must:
  - indicate the reason for hardship; and
  - attest they cannot repay the amounts due on their Mortgage; or
- Borrowers in Imminent Default, must:
  - indicate the reason for hardship and attest that the hardship will prevent them from making the next required Mortgage Payment; or
  - they previously qualified for or used HAF funds to reinstate their Mortgage and are unable to resume their monthly Mortgage Payment.

The Mortgagee may utilize any available method for communicating with a Borrower to meet these requirements, including but not limited to, emails, text messages, teleconferencing, websites, web portals, etc.

FHA does not require any additional information or documentation from the Borrower (including Borrowers who applied for HAF) to apply for COVID-19 Recovery Loss Mitigation Options.

#### (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](#), except:

- [Trial Payment Plan Terms](#);
- [Trial Payment Plan Failure](#), first bullet; and
- [Reporting of Trial Payment Plans](#).

The Mortgagee must comply with the following amended TPP terms:

- The TPP interest rate must meet the requirements for a COVID-19 Recovery Modification.

### III. SERVICING AND LOSS MITIGATION

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- 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 who are able to resume their Mortgage Payments.

The Mortgagee must evaluate Borrowers who are able to resume their Mortgage Payments for a COVID-19 Recovery Standalone Partial Claim.

#### **(a) 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
  - related legal fees and foreclosure and bankruptcy costs not higher than the foreclosure-related fees and costs HUD has identified as customary and reasonable;
- the 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; and

### III. SERVICING AND LOSS MITIGATION

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##### 2. Default Servicing

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- 1                                   • the Borrower indicates they have the ability to resume making on-time  
2                                   Mortgage Payments.

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

6                                   Mortgagees may include an additional month in the total outstanding debt to  
7                                   be resolved to allow time for the Borrower to return the executed Partial  
8                                   Claim documents.

9                                   Eligible Borrowers may receive more than one COVID-19 Recovery  
10                                  Standalone Partial Claim if Partial Claim funds are available.

#### 11                                  **(b) Document Delivery Requirements**

12                                  The Mortgagee must submit all required documentation for COVID-19  
13                                  Recovery Standalone Partial Claims as listed under [FHA-HAMP Loan](#)  
14                                  [Documents](#), except that no TPP is required.

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

17                                  If a Mortgagee experiences additional delays out of their control, including  
18                                  past the automatic 90-Day extension for the recorded Mortgage, that impact  
19                                  delivery of the Partial Claim documents, Mortgagees may file requests for an  
20                                  additional extension in accordance with [Requests for Extensions of Time for](#)  
21                                  [Delivery of Partial Claim Documents](#).

#### 22                                  **(c) Required Documentation**

##### 23                                  **(i) Servicing/Claim File**

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

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

##### 33                                  **(ii) Reporting to HUD**

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



### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing

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### (2) COVID-19 Recovery Modification (07/17/2022)

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 or 480-month Loan Modification, which must include a COVID-19 Recovery Partial Claim if Partial Claim funds are available. The COVID-19 Recovery Modification targets a reduction in the P&I portion of the Borrower's monthly Mortgage Payment.

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

#### (b) 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

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##### 2. Default Servicing

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1 amount that can be used for the COVID-19 Recovery  
2 Modification.

#### 3 **Step 2 – Arrearages**

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

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

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

#### 15 **Step 3 – Modify the Rate and Term of the 30-Year Mortgage**

16 The modified Mortgage is a 360-month Loan Modification, which must  
17 include a COVID-19 Recovery Partial Claim, if Partial Claim funds are  
18 available.

19 The Mortgagee must first apply available Partial Claim funds toward the  
20 arrearages. If the COVID-19 Recovery Partial Claim funds are insufficient  
21 to cure the arrearages, then the Mortgagee must capitalize the remaining  
22 arrearages into the modified Mortgage.

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

#### 29 **Step 4 – Principal Deferment for 30-Year Modification**

30 If the target payment is not achieved in Step 3, the Mortgagee must apply  
31 available COVID-19 Recovery Partial Claim funds as a principal  
32 deferment up to the amount needed to achieve the target payment with the  
33 modified 30-year Mortgage.

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

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing

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

2                                   If the Mortgagee cannot achieve the target payment at Step 4, the  
3                                   Mortgagee must modify the Mortgage to a 40-year (480-month) Loan  
4                                   Modification, which must include a COVID-19 Recovery Partial Claim if  
5                                   Partial Claim funds are available.

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

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

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

- 13                                   • requested by the Borrower; and
- 14                                   • the modified Mortgage at the lesser term achieves the target  
15                                   payment.

16                                  The interest rate of the modified Mortgage must be no more than 50 bps  
17                                  greater than the most recent PMMS Rate for 30-year fixed rate  
18                                  conforming Mortgages (U.S. average), rounded to the nearest one-eighth  
19                                  of 1 percentage point (0.125 percent) as of the date the Borrower is offered  
20                                  a COVID-19 Recovery Modification. The Mortgagee must round the  
21                                  modification interest rate to the nearest one-eighth of 1 percent (0.125  
22                                  percent) before adding no more than 50 bps to the interest rate.

23                                  **Step 6 – Principal Deferment for 40-Year Modification**

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

27                                  **Step 7 – Target Payment Not Achieved**

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

- 30                                   • if the COVID-19 Recovery Modification can achieve a minimum  
31                                   of 15 percent P&I payment reduction, the Mortgagee must offer  
32                                   the Borrower the COVID-19 Recovery Modification; or
- 33                                   • if the COVID-19 Recovery Modification cannot achieve a  
34                                   minimum of 15 percent P&I payment reduction or the Borrower  
35                                   states they cannot make the monthly Mortgage Payment under the  
36                                   COVID-19 Recovery Modification, the Mortgagee must review the  
37                                   Borrower for the Payment Supplement.

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1                                    If the Borrower affirms that they can make the offered payment, the  
2                                    Mortgagee must complete that option.

#### 3                                    **(d) Terms**

4                                    The Mortgagee must ensure that:

- 5                                    • the modified Mortgage is a fixed rate Mortgage;
- 6                                    • the interest rate of the modified Mortgage does not exceed the  
7                                    applicable limit set forth in Steps 3 or 5;
- 8                                    • the COVID-19 Recovery Partial Claim, as part of a COVID-19  
9                                    Recovery Modification, does not exceed 30 percent of the unpaid  
10                                    principal balance as of the date of Default at the time of payment of  
11                                    the initial Partial Claim less any previous Partial Claims paid;
- 12                                    • the COVID-19 Recovery Modification fully reinstates the Mortgage  
13                                    including all arrearages;
- 14                                    • the FHA-insured modified Mortgage remains in first lien position and  
15                                    is legally enforceable; and
- 16                                    • the Borrower indicates they have the ability to make the modified  
17                                    Monthly Payment.

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

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

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

#### 26                                    **(e) Document Delivery Requirements**

27                                    The Mortgagee must submit all required documentation for COVID-19  
28                                    Recovery Partial Claims as listed under [FHA-HAMP Loan Documents](#), except  
29                                    no TPP is required.

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

32                                    If a Mortgagee experiences additional delays out of their control, including  
33                                    past the automatic 90-Day extension for the recorded Mortgage, that impact  
34                                    delivery of the Partial Claim documents, Mortgagees may file requests for an  
35                                    additional extension in accordance with [Requests for Extensions of Time for  
36                                    Delivery of Partial Claim Documents](#).

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1                   **(f) Required Documentation**

2                   ***(i) Servicing/Claim File***

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

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

12                  ***(ii) Reporting to HUD***

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

- 15                  • Default Status Code 61 – Recovery Modification Started with a  
16                  Partial Claim; or
- 17                  • Default Status Code 38 – Recovery Modification Started without a  
18                  Partial Claim.

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

22                  **(3) Payment Supplement**

23                  **(a) Definitions**

24                  The Payment Supplement is a loss mitigation option that utilizes Partial Claim  
25                  funds to bring the Mortgage current coupled with the subsequent provision of  
26                  a Monthly Principal Reduction (MoPR) applied toward the Borrower's  
27                  principal due each month for a period of 36 months to provide payment relief  
28                  without modification of the Mortgage. The Payment Supplement is evidenced  
29                  by a non-interest bearing Note, Subordinate Mortgage, and Payment  
30                  Supplement Agreement, which is a rider to and is incorporated by reference  
31                  into the Payment Supplement promissory Note, given in favor of the  
32                  Secretary, representing the total of all funds paid from the Mutual Mortgage  
33                  Insurance Fund (MMIF) to bring the Mortgage current and then temporarily  
34                  pay a portion of principal owed by the Borrower each month to reduce the  
35                  Borrower's monthly Mortgage Payment.

36                  The Monthly Principal Reduction (MoPR) is the amount of principal  
37                  reduction that the Mortgagee will disburse monthly from the Payment

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1 Supplement Account and apply to the payment of principal due on the  
2 Borrower's FHA-insured first Mortgage during the Payment Supplement  
3 Period.

4 The Minimum Monthly Principal Reduction (Minimum MoPR) must be equal  
5 to or greater than 5 percent of the P&I portion of the Borrower's monthly  
6 Mortgage Payment as of the date the Payment Supplement Period begins. The  
7 Minimum MoPR must also be no less than \$20.00 per month as of the date the  
8 Payment Supplement Period begins.

9 Payment Supplement Documents refer to a non-interest bearing Note,  
10 Subordinate Mortgage, and a Payment Supplement Agreement, which is a  
11 rider to and is incorporated by reference into the Payment Supplement  
12 promissory Note, given in favor of the Secretary.

13 The Payment Supplement Period is a 36 month period during which the  
14 Mortgagee applies the MoPR to temporarily reduce the Borrower's monthly  
15 Mortgage Payment.

16 The Payment Supplement Account is a separate, non-interest bearing, insured  
17 custodial account that holds the balance of the funds paid by FHA for the  
18 purpose of implementing the Payment Supplement, clearly marked as holding  
19 funds for the Payment Supplement, and kept separate from funds associated  
20 with the FHA-insured Mortgage, including escrow funds.

##### 21 **(b) Eligibility**

22 The Mortgagee must ensure that:

- 23 • the Mortgage is a fixed rate Mortgage;
- 24 • sufficient Partial Claim funds are available to bring the Mortgage  
25 current and to fund the MoPR as determined in the [Payment](#)  
26 [Supplement Calculations](#);
- 27 • the Borrower meets the requirements for [Loss Mitigation during](#)  
28 [Bankruptcy Proceedings](#);
- 29 • the principal portion of the Borrower's first monthly Mortgage  
30 Payment after the Mortgage is brought current will be greater than or  
31 equal to the Minimum MoPR; and
- 32 • the Borrower indicates they have the ability to make the Borrower's  
33 portion of the monthly Mortgage Payment.

34 No income documentation is required to determine the Borrower's Payment  
35 Supplement.

36 The Borrower is not eligible for a new Payment Supplement until 36 months  
37 after the date the Borrower previously executed Payment Supplement  
38 Documents.

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1                   **(c) Standard**

2                   The Mortgagee must first advance funds for all amounts needed to bring the  
3                   Mortgage current.

4                   The maximum MoPR is the lesser of a 25 percent P&I reduction for 36  
5                   months, or the principal portion of the monthly Mortgage Payment as of the  
6                   date the Payment Supplement Period begins.

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

- 11                   • all amounts needed to bring the Mortgage current before the start of
- 12                   the Payment Supplement Period; and
- 13                   • the total amount required for all estimated MoPR payments for the full
- 14                   Payment Supplement Period.

15                  The Mortgagee must retain the balance of the MoPR funds in the Payment  
16                  Supplement Account for the benefit of the Borrower until disbursement of the  
17                  funds:

- 18                   • for application of the MoPR; or
- 19                   • for remittance to HUD.

20                  The Payment Supplement Period is 36 months.

21                  For each month of the Payment Supplement Period, the Mortgagee must only  
22                  disburse funds from the Payment Supplement Account to apply the MoPR to  
23                  the principal portion of the monthly Mortgage Payment after the Mortgagee  
24                  has received and accepted, at a minimum, the Borrower's portion of the  
25                  monthly Mortgage Payment. The Mortgagee must only apply the MoPR  
26                  during the 36 months of the Payment Supplement Period.

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

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

35                   **(d) Payment Supplement Calculations**

36                  To calculate the amount of the Partial Claim the Mortgagee submits to HUD  
37                  for the Payment Supplement, the Mortgagee must follow the steps below.

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

2 The Mortgagee must determine the maximum Partial Claim amount  
3 available for the Payment Supplement. The Payment Supplement, in  
4 addition to any other existing Partial Claim, must not exceed the [Statutory](#)  
5 [Maximum for Partial Claims](#).

6 The Mortgagee must calculate the statutory maximum for Partial Claims,  
7 and then subtract any outstanding Partial Claim balances to determine the  
8 amount available for the Payment Supplement.

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

11 The Mortgagee must calculate the amounts needed to bring the Mortgage  
12 current in accordance with COVID-19 Recovery Standalone Partial Claim,  
13 as described in the second bullet of [Terms](#).

14 The Mortgagee must waive all Late Charges and penalties, except that  
15 Mortgagees are not required to waive Late Charges and penalties, if any,  
16 accumulated prior to March 1, 2020.

17 Mortgagees may include an additional monthly payment in calculating the  
18 amount needed to bring the Mortgage current, as the payment will be past  
19 due before the Borrower returns the completed Payment Supplement  
20 Documents.

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

22 The Mortgagee must determine the amount of Partial Claim funds  
23 available for the MoPR.

24 The Mortgagee must subtract the amount needed to bring the Mortgage  
25 current (calculated in Step 2) from the Borrower's total Partial Claim  
26 funds available (calculated in Step 1).

27 If the amount needed to bring the Mortgage current (Step 2) is greater than  
28 the Borrower's total Partial Claim funds available (calculated in Step 1),  
29 the Borrower is not eligible for the Payment Supplement and the  
30 Mortgagee must offer the Borrower the lowest monthly P&I payment that  
31 can be achieved under the COVID-19 Recovery Modification.



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

2 **Step 4.A**

3 The Mortgagee must calculate the amount needed to reduce the P&I  
4 portion of the Borrower's monthly Mortgage Payment by 25 percent.

5 **Step 4.B**

6 The Mortgagee must determine the maximum MoPR.

7 The maximum MoPR is the lesser of the amount calculated in Step 4.A or  
8 the principal portion only of the Borrower's monthly Mortgage Payment  
9 as of the date the Payment Supplement Period begins after the Mortgage is  
10 brought current.

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

12 **Step 5.A**

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

- 16 • If the Borrower has sufficient Partial Claim funds, the amount of  
17 the MoPR is the MoPR (calculated in Step 4.B) for the 36 months  
18 of the Payment Supplement Period. Proceed to Step 6.
- 19 • If the Borrower does not have sufficient Partial Claim funds for the  
20 maximum MoPR for 36 months, the Mortgagee must proceed to  
21 Step 5.B.

22 **Step 5.B**

23 If the Borrower does not have sufficient Partial Claim funds available for  
24 the maximum MoPR for 36 months (calculated in Step 5.A), the  
25 Mortgagee must divide the amount of Partial Claim funds available for the  
26 MoPR (calculated in Step 3) by 36 months and proceed to Step 6.

27 **(vi) Step 6 – Payment Reduction Test**

28 The Mortgagee must determine if the MoPR will result in no less than the  
29 Minimum MoPR for a Payment Supplement Period of 36 months where  
30 the MoPR is only applied to the principal.

- 31 • If the MoPR (calculated in Step 5) reduces the P&I portion of the  
32 Borrower's monthly Mortgage Payment by no less than the  
33 Minimum MoPR, the Mortgagee must proceed to Step 7.
- 34 • If the MoPR (calculated in Step 5) fails to reduce the P&I portion  
35 of the Borrower's monthly Mortgage Payment by the Minimum

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1 MoPR, the Borrower is ineligible for the Payment Supplement.  
2 The Mortgagee must offer the Borrower the lowest monthly P&I  
3 payment that can be achieved under:  
4 o a COVID-19 Recovery Modification; or  
5 o a COVID-19 Recovery Standalone Partial Claim.

6 If the Borrower affirms that they can make the offered payment, the  
7 Mortgagee must complete that option.

#### 8 **(vii) Step 7 – Compare Savings with Available Permanent Home** 9 **Retention Options**

10 If the MoPR (calculated in Step 5) achieves the Minimum MoPR, the  
11 Mortgagee must compare the proposed Borrower’s portion of the P&I  
12 monthly payment under the Payment Supplement with the Borrower’s  
13 proposed P&I monthly payment under the COVID-19 Recovery  
14 Modification to determine the greater payment reduction.

15 If the Borrower is able to achieve a lower P&I monthly payment with the  
16 COVID-19 Recovery Modification, the Mortgagee must offer the  
17 Borrower the COVID-19 Recovery Modification.

18 If the Borrower is not able to achieve a lower P&I monthly payment  
19 utilizing the COVID-19 Recovery Modification, the Mortgagee must offer  
20 the Borrower the Payment Supplement.

21 The Mortgagee must document the Servicing File with the option offered  
22 to the Borrower.

#### 23 **(e) Mortgages with an Interest Rate Buydown and Mortgages Affected by** 24 **the Servicemember Civil Relief Act**

25 For Mortgages with an interest rate buydown and Mortgages affected by the  
26 Servicemembers Civil Relief Act (SCRA), the Mortgagee must:

- 27 • calculate the MoPR based on the P&I portion of the monthly Mortgage  
28 Payment as of the date the Payment Supplement Period begins:
  - 29 o based on the Note rate of the Mortgage without the temporary  
30 interest rate buydown, if applicable; and
  - 31 o based on the Note rate of the Mortgage without the SCRA  
32 protection, if applicable;
- 33 • ensure the MoPR does not exceed the principal portion of the monthly  
34 Mortgage Payment;
- 35 • ensure the MoPR does not change during the Payment Supplement  
36 Period; and
- 37 • ensure the Payment Supplement Period remains 36 months.

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1                                   **(f) Payment Supplement Documents**

2                                   ***(i) Standard***

3                                   The Mortgagee must prepare the Payment Supplement Documents using  
4                                   HUD's model Payment Supplement Documents or substantially similar  
5                                   documents. The Mortgagee must ensure that:

- 6                                   • the Payment Supplement promissory Note and Payment  
7                                   Supplement Agreement are executed in the name of the Secretary;
- 8                                   • all Payment Supplement Documents include the full FHA case  
9                                   number, are legally enforceable, and comply with all applicable  
10                                   laws;
- 11                                   • the Payment Supplement Documents comply with all requirements  
12                                   for Partial Claims as listed under [FHA-HAMP Loan Documents](#)  
13                                   except (1)(a), (5), (6)(a), and (9); and
- 14                                   • the Payment Supplement subordinate Mortgage is recorded.

15                                   The Mortgagee must provide the Borrower with the Payment Supplement  
16                                   Documents to be signed.

17                                   The Borrower is required to sign and return the Payment Supplement  
18                                   Documents before the Mortgagee brings the Mortgage current and applies  
19                                   the first MoPR.

20                                   ***(ii) Document Delivery Requirements***

21                                   The Mortgagee must deliver to HUD's Loan Servicing Contractor:

- 22                                   • no later than 60 Days from the execution date, the original  
23                                   Payment Supplement promissory Note and the Payment  
24                                   Supplement Agreement;
- 25                                   • no later than six months from the execution date, the recorded  
26                                   Payment Supplement subordinate Mortgage; and
- 27                                   • with each delivery of Payment Supplement Documents, the  
28                                   Mortgagee must include a cover letter or manifest with the FHA  
29                                   case number for the documents that are being delivered.

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

32                                   Mortgagees may file requests for an additional extension in accordance  
33                                   with [Requests for Extensions of Time for Delivery of Partial Claim](#)  
34                                   [Documents](#) if a Mortgagee experiences additional delays out of their  
35                                   control, including past the automatic 90-Day extension for the recorded  
36                                   Mortgage.

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1                   **(g) Payment Supplement Account**

2                   ***(i) Standard***

3                   The Mortgagee must segregate the funds paid by FHA for the MoPR in  
4                   the Payment Supplement Account. The Payment Supplement Account  
5                   must:

- 6                   • be deposited with a financial institution whose accounts are  
7                   insured by the Federal Deposit Insurance Corporation (FDIC) or  
8                   the National Credit Union Administration (NCUA);
- 9                   • not limit the Mortgagee’s access to funds for the MoPR, require an  
10                  advance notice of withdrawal, or require the payment of a  
11                  withdrawal penalty;
- 12                • clearly identify the funds being held in that account as being  
13                  derived from and held as part of the Payment Supplement  
14                  Documents executed by the Borrower as part of the Payment  
15                  Supplement loss mitigation action being undertaken by the  
16                  Mortgagee; and
- 17                • ensure that the funds in the Payment Supplement Account are not  
18                  comingled with any funds held in accounts restricted by  
19                  agreements with Ginnie Mae.

20                Neither the Mortgagee nor the Borrower has any discretion in the use and  
21                application of the funds from the Payment Supplement.

22                Mortgagees utilizing a Trust Clearing Account must withdraw the portion  
23                that is to be deposited into the Payment Supplement Account within 48  
24                hours of receiving the Payment Supplement funds from HUD.

25                Mortgagees are not prohibited from holding MoPR funds for multiple  
26                Mortgages in a single account for implementing the Payment Supplement;  
27                however, the Mortgagee must not commingle funds in the Payment  
28                Supplement Account, even temporarily, with any funds held in accounts  
29                restricted by agreements with Ginnie Mae, escrow funds, or funds used for  
30                the Mortgagee’s general operating purposes or any other purpose.

31                If the Borrower enters into bankruptcy during the Payment Supplement  
32                Period, the Mortgagee must continue to apply the MoPR unless otherwise  
33                required or permitted by law. If so required, the Mortgagee must seek  
34                court approval for the Payment Supplement and the Borrower’s  
35                reaffirmation of the Partial Claim debt. Any additional loss mitigation  
36                offered during bankruptcy must be in accordance with [Loss Mitigation](#)  
37                [during Bankruptcy Proceedings](#).

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#### **(ii) Interest on Payment Supplement Account**

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

#### **(h) Required Documentation**

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

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

#### **(i) Disclosures to Borrower**

The Mortgagee must send the Borrower written disclosures annually and between 60 and 90 Days before the expiration of the Payment Supplement Period.

Mortgagees may develop specific disclosure documents or may use or modify FHA's model Annual Payment Supplement Disclosure and Final Payment Supplement Disclosure documents. Mortgagees must ensure that any disclosures comply with all applicable laws.

#### **(i) Annual Payment Supplement Disclosure**

The Mortgagee must send the Borrower a written disclosure annually, at minimum, during the Payment Supplement Period, including:

- information about the Payment Supplement, including:
  - o the amount used to bring the Mortgage current at the start of the Payment Supplement;
  - o the accounting of the MoPR funds disbursed from the Payment Supplement Account and applied each month during the Payment Supplement Period; and
  - o the funds remaining in the Payment Supplement Account;
- the date of expiration of the Payment Supplement Period;
- the total Payment Supplement Note amount;

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- the Borrower’s current monthly Mortgage Payment without MoPR and an explanation that if escrow amounts change, future payments may increase; and
- a statement that the Borrower may voluntarily terminate the Payment Supplement and resume their full monthly Mortgage Payment without the MoPR and any remaining funds in the Payment Supplement Account will be returned to HUD to reduce the total outstanding Payment Supplement balance associated with the Borrower’s Payment Supplement Documents.

The Mortgagee may include the disclosure as part of, or with, a monthly or annual billing statement. The disclosure may be sent electronically.

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

The Mortgagee must send the Borrower a written disclosure between 60 and 90 Days before the expiration of the Payment Supplement Period, including information about:

- the expiration of the Payment Supplement Period; and
- the accounting of the Payment Supplement, including:
  - o the total Payment Supplement Note amount;
  - o the amount used to bring the Mortgage current at the start of the Payment Supplement;
  - o the accounting of the MoPR funds disbursed from the Payment Supplement Account and applied each month for the Payment Supplement Period;
  - o if applicable, any funds remaining in the Payment Supplement Account and a statement that FHA will use these funds to reduce the balance on the amount owed by the Borrower under the Payment Supplement Documents; and
  - o the Borrower’s estimated first monthly Mortgage Payment following the expiration of the Payment Supplement.

#### **(j) Subsequent Default during Payment Supplement Period**

If a Borrower is 30 Days or more past due or in Imminent Default during the Payment Supplement Period, the Mortgagee must review the Borrower in accordance with the [COVID-19 Recovery Loss Mitigation Options – Standard](#). The permanent Loss Mitigation Option will determine if:

- the MoPR will continue to be applied for the remainder of the Payment Supplement Period without changes to the Payment Supplement Agreement; or
- the Payment Supplement will be terminated.

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1                                    **(i) Mortgage Reinstatement without a Permanent Loss Mitigation**  
2                                    **Option – MoPR Continues**

3                                    If the Borrower, without the use of a permanent loss mitigation option,  
4                                    makes their portion of the missed monthly Mortgage Payments, the MoPR  
5                                    must be disbursed from the Payment Supplement Account and then  
6                                    applied to the missed payments as they are made. For these missed  
7                                    payments, the MoPR must be applied only to the principal portion of the  
8                                    missed Mortgage Payment and for the exact amount that would have been  
9                                    applied for an on-time payment, including when the Mortgage is brought  
10                                    current through payments made on a repayment plan or a forbearance  
11                                    plan.

12                                    The MoPR must be applied for the remainder of the Payment Supplement  
13                                    Period as the Borrower makes each required payment.

14                                    **(ii) Mortgage Reinstatement with COVID-19 Recovery Standalone**  
15                                    **Partial Claim – MoPR Continues**

16                                    If the Borrower requires a new loss mitigation option to reinstate their  
17                                    Mortgage, the Mortgagee must first evaluate the Borrower for an  
18                                    additional COVID-19 Recovery Standalone Partial Claim to bring the  
19                                    Mortgage current.

20                                    A Borrower may receive no more than two COVID-19 Recovery  
21                                    Standalone Partial Claims to reinstate the Mortgage during the Payment  
22                                    Supplement Period.

23                                    The Mortgagee must determine the amount of funds needed for the  
24                                    COVID-19 Recovery Standalone Partial Claim by:

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

31                                    If the Borrower has sufficient additional Partial Claim funds available, the  
32                                    Mortgagee must:

- 33                                    • ensure the Borrower attests they can resume their portion of the  
34                                    monthly Mortgage Payment;
- 35                                    • ensure all requirements in accordance with a [COVID-19 Recovery](#)  
36                                    [Standalone Partial Claim](#) are met; and
- 37                                    • prepare and send the Borrower the documents for a COVID-19  
38                                    Recovery Standalone Partial Claim to reinstate the Mortgage.

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1 Upon receipt of the executed COVID-19 Recovery Standalone Partial  
2 Claim documents from the Borrower, the Mortgagee must:

- 3 • disburse and then apply funds from the Payment Supplement  
4 Account to cover the MoPR for each month it was not applied due  
5 to missed payments by the Borrower; and
- 6 • advance the funds from the COVID-19 Recovery Standalone  
7 Partial Claim necessary to reinstate the Mortgage.

8 For missed payments, the MoPR must be applied only to the principal  
9 portion of the missed payment and for the exact amount that would have  
10 been applied for an on-time payment. After the Mortgage is reinstated, the  
11 Mortgagee must resume applying the MoPR.

12 The Payment Supplement Period will not be extended beyond the original  
13 term set in the Payment Supplement Agreement.

#### 14 ***(iii)*Mortgage Reinstatement with Other Permanent Loss Mitigation** 15 **Option – MoPR Terminates**

16 If the Borrower cannot bring the Mortgage current through an additional  
17 COVID-19 Recovery Standalone Partial Claim, the Mortgagee must:

- 18 • evaluate the Borrower for the available permanent loss mitigation  
19 options;
- 20 • terminate the Payment Supplement and application of the MoPR  
21 upon receipt of the new executed loss mitigation documents;
- 22 • send the Borrower documentation that the Payment Supplement  
23 has been terminated and a detailed account of how the Payment  
24 Supplement funds were applied;
- 25 • no later than 30 Days after the date the Payment Supplement was  
26 terminated, remit any remaining funds from the Payment  
27 Supplement Account [to HUD](#) via Pay.gov - Single Family Notes  
28 Lender Entry Form; and
- 29 • report the termination of the Payment Supplement through  
30 SFDMS.

#### 31 ***(iv)*Mortgage Cannot Be Reinstated – MoPR Terminates**

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

#### 35 ***(a)* Pre-Foreclosure Sales**

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

- 37 • proceed with the PFS requirements under [Pre-Foreclosure Sale](#);



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- prior to execution of the Approval to Participate (ATP) agreement (form [HUD-90045](#), *Approval to Participate Pre-foreclosure Sale Procedure Property Sales Information Property Occupancy & Maintenance*), provide the Borrower with a disclosure statement including:
  - the Payment Supplement will be terminated upon receipt of the executed ATP and the Mortgagee will not advance funds to cover the MoPR during the PFS marketing period;
  - the amount of the Partial Claim that was used to bring the Mortgage current at the start of the Payment Supplement Period;
  - the total amount of funds that were disbursed from the Payment Supplement Account for MoPR payments; and
  - the amount of individual MoPR payments and the months for which they were applied;
- terminate the Payment Supplement upon receipt of the executed ATP;
- ensure that no funds remaining in the Payment Supplement Account are returned to the Borrower;
- ensure that the funds remaining in the Payment Supplement Account are not used as a credit to the first Mortgage;
- no later than 30 Days after the date of execution of the ATP, remit all remaining funds in the Payment Supplement Account [to HUD](#) via Pay.gov - Single Family Notes Lender Entry Form;
- instruct the Closing Agent to pay off the outstanding amount due under the Payment Supplement Note and other Partial Claims, if any, at closing [to HUD](#); and
- no later than 45 Days after the date of termination of the Payment Supplement, upload the final accounting of the Payment Supplement into the SMART Integrated Portal (SIP).

##### **(b) Deed-in-Lieu of Foreclosure, Foreclosure Sales, and CWCOT**

In addition to the requirements for [DIL](#), [Foreclosures](#), and [CWCOT](#), the Mortgagee must:

- terminate the Payment Supplement when the sale is completed or the deed is transferred;
- ensure that no funds remaining in the Payment Supplement Account are returned to the Borrower;
- ensure that the funds remaining in the Payment Supplement Account are not used as a credit to the first Mortgage; and
- no later than 30 Days after the date the sale is completed or the deed is transferred, remit all remaining funds in the Payment Supplement Account [to HUD](#) via Pay.gov - Single Family Notes Lender Entry Form; and

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- no later than 45 Days after the date the sale is completed or the deed is transferred, upload the final accounting of the Payment Supplement into SIP.

#### **(k) Completion or Termination of the Payment Supplement**

A Payment Supplement is completed or terminated upon the earlier of:

- the end date of the Payment Supplement Period;
- the application of 36 MoPRs; or
- early termination of the Payment Supplement.

No later than 30 Days after the date of the completion or termination of the Payment Supplement, the Mortgagee must remit any funds remaining in the Payment Supplement Account [to HUD](#) via Pay.gov - Single Family Notes Lender Entry Form.

#### **(i) Early Termination of the Payment Supplement**

##### **(a) Voluntary Termination Request**

The Mortgagee must terminate the Payment Supplement upon Borrower request if 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 send the Borrower documentation that the Payment Supplement has been terminated and a detailed account of how the Payment Supplement funds were applied.

##### **(b) Loss Mitigation Home Retention Action Completed**

The Mortgagee must terminate the Payment Supplement when any subsequent loss mitigation home retention option is executed by all required parties, except for a COVID-19 Recovery Standalone Partial Claim.

##### **(c) PFS, DIL, Foreclosure, and CWCOT**

The Mortgagee must terminate the Payment Supplement upon receipt of an executed ATP for PFS or when the foreclosure sale, CWCOT sale, or transfer of deed is completed.

##### **(d) Transfers and Assumptions**

The Payment Supplement is non-transferrable and not assignable to a new Borrower. Upon approval by the Mortgagee of the transfer or assumption, or when the Mortgagee receives actual or constructive knowledge of the

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1 transfer of ownership, the Mortgagee must terminate the Payment  
2 Supplement.

##### 3 **(e) Sale (non-PFS) or Refinance**

4 If the Property is being sold or the Mortgage is being refinanced, the  
5 Mortgagee must:

- 6 • provide the Payment Supplement payoff statement upon request;
- 7 and
- 8 • terminate the Payment Supplement upon completion of the sale or
- 9 refinance.

##### 10 **(ii) Final Accounting of Payment Supplement**

11 No later than 45 Days after the date of completion or termination of the  
12 Payment Supplement, the Mortgagee must:

- 13 • upload a final accounting of the Payment Supplement in the
- 14 SMART Integrated Portal (SIP); and
- 15 • input the amount of any funds remitted to HUD.

16 The Mortgagee is not permitted to submit the final accounting until after  
17 remitting to HUD all remaining funds from the Payment Supplement  
18 Account, if any.

19 The final accounting of the Payment Supplement is a document uploaded  
20 in SIP that must include:

- 21 • the amount that was used to bring the Mortgage current at the start
- 22 of the Payment Supplement Period;
- 23 • the total amount applied to MoPR payments; and
- 24 • the amount of individual MoPR payments and the months for
- 25 which they were applied.

26 The Mortgagee must also input in SIP the amount of funds, if any, that  
27 have been remitted [to HUD](#) via Pay.gov - Single Family Notes Lender  
28 Entry Form in SIP.

##### 29 **(iii) Payment Supplement Payoff Statement**

30 The Mortgagee must issue Payment Supplement payoff statements until  
31 the final accounting of the Payment Supplement has been submitted to  
32 HUD. The Mortgagee must issue Payment Supplement payoff statements  
33 upon request and when the Mortgagee receives a payoff request for the  
34 Borrower's first Mortgage.

35 The Mortgagee must include in a Payment Supplement payoff statement,  
36 at a minimum:

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- 1                   • the total amount due for the Payment Supplement, including
- 2                    itemizing:
- 3                    o the amount that was used to bring the Mortgage current at the
- 4                    start of the Payment Supplement Period; and
- 5                    o the total amount applied to MoPR payments;
- 6                   • a statement that the Payment Supplement is a subordinate lien in
- 7                    the name of the Secretary of HUD;
- 8                   • instructions that the payoff of funds owed under the Payment
- 9                    Supplement must be remitted [to HUD](#) via Pay.gov;
- 10                  • a statement that the payoff amount will change if additional
- 11                  account activity occurs including:
- 12                  o any payment made that triggers the application of a MoPR; and
- 13                  o returned payments due to a stop payment or insufficient funds;
- 14                  and
- 15                  • anything required by applicable laws.

16                   The Payment Supplement payoff statement must not include or reflect as a  
17                   credit any remaining funds in the Payment Supplement Account.

18                   The Payment Supplement payoff statement must not include the balance  
19                   of any additional outstanding Partial Claims.

20                   If HUD receives a request for a payoff statement of the Payment  
21                   Supplement prior to receipt of the final accounting from the Mortgagee,  
22                   HUD will provide the maximum amount available under the Payment  
23                   Supplement and direct the requestor to contact the Mortgagee for the  
24                   actual amount required to pay off the Payment Supplement.

25                   After completion or termination of the Payment Supplement and  
26                   submission of the final accounting from the Mortgagee, the Mortgagee  
27                   must not issue any payoff statements for the Payment Supplement.

#### 28                   *(iv)*Required Documentation

29                   The Mortgagee must retain a copy of the final accounting and, if  
30                   applicable, the Payment Supplement **payoff** statement in the Servicing  
31                   File.

#### 32                   **(l) Errors or Miscalculations of Funds Associated with Payment** 33                   **Supplement**

34                   If the Mortgagee makes an error or miscalculates the Payment Supplement  
35                   that results in:

- 36                   • a claim overpayment to the Mortgagee, the Mortgagee must remit the  
37                   overpaid amount immediately [to HUD](#) via Pay.gov - Single Family  
38                   Notes Lender Entry Form; or



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1 **(ii) Subsequent Default**

2 For every month the Borrower does not make their required payment  
3 under the Payment Supplement, the Mortgagee must report DDS Code 51  
4 with the applicable oldest unpaid installment date indicating that the  
5 Mortgage is past due. The Mortgagee must report the applicable  
6 Occupancy Status Code and Occupancy Status Date based on the most  
7 recent occupancy determination.

8 If the Borrower does not make their required payment under the Payment  
9 Supplement and then reinstates their Mortgage without the use of a loss  
10 mitigation option, the Mortgagee must continue to report DDS Code 51  
11 with the applicable oldest unpaid installment date. The Mortgagee must  
12 not report DDS Code 20 or 98 as long as the Payment Supplement is still  
13 in effect.

14 **(a) Forbearance Plan during Payment Supplement Period**

15 If the Borrower begins a forbearance plan during the Payment Supplement  
16 Period, the Mortgagee must:

- 17 • report the appropriate DDS Code for the loss mitigation option  
18 utilized; and
- 19 • continue to report DDS Code 51 with the applicable oldest unpaid  
20 installment date until new executed loss mitigation documents are  
21 received.

22 **(b) COVID-19 Recovery Standalone Partial Claim after Subsequent  
23 Default**

24 If the Borrower does not make their required payment under the Payment  
25 Supplement and then reinstates their Mortgage with the use of a COVID-  
26 19 Recovery Standalone Partial Claim, the Mortgagee must:

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

33 **(c) Other Loss Mitigation Options after Subsequent Default**

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

- 37 • report the appropriate DDS Code for the loss mitigation option  
38 utilized;

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- 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.

##### **(d) Option Failure**

If the Borrower does not sign and return the Payment Supplement Documents or does not make their required payment under the Payment Supplement 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.

##### **(iv) Assumption**

If the Mortgage is assumed before the end of the Payment Supplement Period, the Mortgagee must report DDS Code 21.

##### **(v) Bankruptcy**

If the Borrower is in bankruptcy and continues to make their required payment under the Payment Supplement, the Mortgagee is not required to report bankruptcy.

#### **(D) COVID-19 Home Disposition Options**

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

##### **(1) COVID-19 Pre-Foreclosure Sale**

###### **(a) Definition**

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

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1 COVID-19 PFS is available to Borrowers who are experiencing a hardship  
2 affecting their ability to sustain the Mortgage.

##### 3 (b) Eligibility

4 The Mortgagee must ensure that:

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

##### 10 (c) Standard

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

13 The Mortgagee must ensure the COVID-19 PFS meets all PFS program  
14 requirements outlined in [Pre-Foreclosure Sales](#), except for [Required](#)  
15 [Documentation for PFS](#) and [PFS Options](#).

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

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

##### 24 (d) Reporting to HUD

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

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

##### 27 (a) Definition

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



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###### (b) Eligibility

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

- meet the requirements for COVID-19 PFS transactions;
- was unable to complete a COVID-19 PFS transaction by the expiration of the PFS marketing period; and
- meet all DIL eligibility requirements except:
  - the Borrower Eligibility [Streamlined DIL Standards](#), which are not required for the COVID-19 DIL; and
  - Mortgagees are not required to submit a request for National Servicing Center (NSC) approval via EVARS for approval to offer a COVID-19 DIL Option to a Borrower who owns more than one FHA-insured Property as outlined in [DIL Exceptions for Borrowers with More than One FHA-Insured Mortgage](#).

###### (c) Standard

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

- The Borrower must attest that they have experienced a hardship that has affected their ability to sustain their Mortgage and is not required to verify their hardship with documentation or other information.
- Extensions for [DIL Foreclosure Time Frames](#): if the DIL follows a failed COVID-19 PFS, it must be completed or foreclosure must be initiated within 90 Days of the termination or expiration of the PFS ATP Agreement (form HUD-90045).

###### (d) Reporting to HUD

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

### iii. 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.

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### 1 (B) Default Status Code Reporting

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

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

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

### 13 (C) COVID-19 Reporting

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

- 16 • Status Code 08 – Trial Payment Plan
- 17 • Status Code 06 – Formal Forbearance Plan for the COVID-19 Forbearance
- 18 • Status Code 12 – Repayment/Informal Forbearance Plan
- 19 • Status Code 3A – Advance Modification Started
- 20 • Status Code 50 – COVID-19 Recovery Standalone Partial Claim Started
- 21 • Status Code 61 – Recovery Modification Started with a Partial Claim
- 22 • Status Code 38 – Recovery Modification Started without a Partial Claim
- 23 • Status Code 78 – Borrower Program Assistance Received if Homeowner  
24 Assistance Funds are used in connection with reinstating the Mortgage
- 25 • Status Code 15 – Pre-foreclosure Acceptance Plan Available for the COVID-  
26 19 PFS
- 27 • Status Code 44 – Deed-in-Lieu Started for the COVID-19 DIL
- 28 • Status Code AH – Streamlined Financials Received and In Review must be  
29 reported prior to Status Codes 15 and 44 as appropriate to identify the use of  
30 the COVID-19 PFS or COVID-19 DIL

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

- 33 • Status Code 10 – Partial Claim Started for the COVID-19 Standalone Partial  
34 Claim or the COVID-19 Recovery Standalone Partial Claim
- 35 • Status Code 28 – Modification Started with an Occupancy Status Code 1  
36 (Occupied by Borrower) for the COVID-19 Owner-Occupant Loan  
37 Modification
- 38 • Status Code 28 – Modification Started with the applicable Occupancy Status  
39 Code that indicates the type of non-borrower occupancy for the COVID-19  
40 Non-Occupant Loan Modification

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- 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.

#### iv. Extension of First Legal Deadline Date (02/07/2022)

Deadlines for the first legal action and Reasonable Diligence Time Frame are extended by 180 Days from the later date of either the end of the Borrower's COVID-19 Forbearance or the expiration of the foreclosure moratorium for FHA-insured Single Family Mortgages, except for FHA-insured Mortgages secured by vacant or abandoned Properties.

If the Mortgagee needs additional time to meet the first legal deadline date, the Mortgagee must submit a request for extension of time to the NSC for HUD approval via EVARS.

#### v. Terms of the Mortgage are Unaffected

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

#### vi. Borrowers Impacted by a PDMDA

For Borrowers impacted by a PDMDA:

- For Borrowers who are already on a COVID-19 Loss Mitigation Option or a COVID-19 Recovery Option, including a COVID-19 Forbearance, before the date of a new PDMDA Disaster Declaration, the Mortgagee must continue to follow the COVID-19 Loss Mitigation Option or COVID-19 Recovery Option guidance.
- For all other Borrowers, the Mortgagee must evaluate the Borrower for [Forbearance Options for Borrowers in PDMDAs](#) and then evaluate the Borrower for the [COVID-19 Recovery Home Retention Options](#), regardless of the reported reason for default.

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

##### 6 **n. Non-Monetary Default (12/21/2022)**

7 By executing the deed of trust and Note for an FHA-insured Mortgage, the Borrower agrees  
8 to submit the monthly Mortgage Payment by the first of each month and to adhere to the  
9 uniform covenants listed in the deed of trust and Note. The following provides guidance  
10 associated with the Borrower's failure to adhere to these covenants.

##### 11 **i. Definition**

12 Non-Monetary Default is when the Borrower fails to perform obligations, other than  
13 making monthly payments, contained in the mortgage security instrument for a period of  
14 30 Days.

##### 15 **ii. Mortgagee Cure**

16 When the Non-Monetary Default may be cured or otherwise resolved by Mortgagee  
17 action without resorting to foreclosure action, the Mortgagee must advance and charge  
18 the Borrower all amounts due for servicing activities, as defined in the mortgage  
19 agreement, if:

- 20 • the Borrower fails to make required payments or charges;
- 21 • the Borrower fails to perform any other covenants and agreements contained in  
22 the security instrument; or
- 23 • there is a legal proceeding that may affect the Mortgagee's rights in the Property.

##### 24 **iii. Hazard and Flood Insurance**

25 If the Borrower fails to maintain adequate Hazard and/or Flood Insurance coverage when  
26 it is stated as an obligation in the Mortgage, the Mortgagee may advance funds or force-  
27 place insurance as follows.

##### 28 **(A) Mortgagee Advances**

29 The Mortgagee may advance the funds to pay the renewal premiums. The Mortgagee  
30 must renew the same type of policy and the same coverage carried previously by the  
31 Borrower.

##### 32 **(B) Force-Placed Insurance**

33 If Borrowers fail to renew the Hazard and/or Flood Insurance coverage when  
34 required, the Mortgagee may force-place Hazard and/or Flood Insurance where  
35 consistent with federal regulations. While the Mortgagee may, at its discretion, obtain

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1 more coverage than is necessary to protect the Mortgagee's interest, HUD limits its  
2 reimbursement of these [premiums](#).

3 If the Mortgagee force-places a Private Flood Insurance (PFI) policy to satisfy the  
4 mandatory Flood Insurance purchase requirement, the PFI must meet the  
5 requirements for [Flood Insurance](#).

#### 6 **iv. Taxes, Assessments, and Government or Municipal Charges**

7 The Mortgagee may advance funds and charge the Borrower when the Borrower fails to  
8 pay taxes, assessments, water rates, and other governmental or municipal charges, fines,  
9 or impositions not included in the Borrower's monthly Mortgage Payment.

#### 10 **v. Homeowners' Association Fees**

11 If the Borrower fails to pay HOA/Condominium Fees, the Mortgagee must take any  
12 action necessary to protect the first lien position of the FHA-insured Mortgage against  
13 foreclosure actions brought by a HOA/condominium or any other junior lien holder.

#### 14 **vi. Code Violations**

15 If the Borrower fails to address a code violation notice from the municipality where the  
16 Property is located, the Mortgagee must perform activities necessary to preserve and  
17 protect the Property, as authorized under the security instruments. See [Mortgagee](#)  
18 [Property Preservation and Protection Action](#).

#### 19 **vii. Demolition Orders**

20 The Mortgagee must forward copies of all notices pertaining to demolition orders and  
21 hearings to HUD's [MCM](#) immediately upon discovery.

22 The MCM will advise the Mortgagee as to whether to proceed with the demolition or to  
23 postpone the demolition until after conveyance to HUD.

#### 24 **viii. Due-on-Sale Clause**

25 The Mortgagee must review the Mortgage's legal documents to determine any covenant  
26 restrictions pertaining to assumption. See [Assumptions](#) for more information.

#### 27 **o. Distressed Asset Stabilization Program**

### 28 **RESERVED FOR FUTURE USE**

29 This section is reserved for future use, and until such time, FHA-approved Mortgagees and any  
30 other interested participants must continue to comply with all applicable law and existing  
31 Handbooks, Mortgagee Letters, Notices and outstanding guidance applicable to their  
32 participation in FHA programs.

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1       **p. Reinstatement (03/31/2022)**

2           **i. Standard**

3       The Mortgagee must allow reinstatement of the Mortgage if the Borrower offers, in a  
4       lump sum payment, all amounts to bring the account current, including costs incurred by  
5       the Mortgagee in instituting foreclosure, except under any of the following  
6       circumstances:

- 7           • within the two years immediately preceding the initiation of the current  
8           foreclosure action, the Mortgagee has accepted reinstatement in a previous  
9           foreclosure action;
- 10          • reinstatement will preclude foreclosure following a subsequent Default; or
- 11          • reinstatement will adversely affect the priority of the mortgage lien.

12          **ii. Incurred Costs**

13           **(A) Property Inspections/Preservation**

14       When a Mortgage in Default is reinstated, the Mortgagee may charge the Borrower  
15       the costs of property inspections and/or preservation, so long as the costs are:

- 16           • reasonable and customary for those services, as established in the [Mortgagee](#)  
17           [Property Preservation and Protection Action](#) section; and
- 18           • consistent with HUD requirements, state law, and security instruments.

19           **(B) Inspection Cost Collected from Borrower**

20       The Mortgagee may collect the cost of the inspections from the Borrower only when:

- 21           • the Mortgage was reinstated or paid in full;
- 22           • the Mortgagee has performed and properly documented the inspections  
23           pursuant to HUD requirements; and
- 24           • the cost of each inspection was reasonable and within the cost limitation  
25           established by HUD.

26       The Mortgagee must not collect inspection costs from the Borrower's escrow account  
27       or charge for an Occupancy Inspection performed after successful contact with the  
28       Borrower or occupant.

29           **(C) Attorney's and Trustees' Fees**

30       If the Mortgagee cancels a foreclosure action for a Loss Mitigation Option, a  
31       reinstatement, or a payment in full, the Mortgagee may charge the Borrower for  
32       attorney's fees as follows:

- 33           • The attorney's fees to be paid by the Borrower must be commensurate with  
34           the actual work performed to that point.
- 35           • The amount charged may not be in excess of the fee that HUD has established  
36           as [reasonable and customary](#) for claim purposes.

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#### iii. Reinstatement during CWCOT

If the Mortgagee is using CWCOT procedures and the Borrower reinstates the Mortgage after foreclosure has been instituted, the Mortgagee must:

- cancel the appraisal if the appraisal has not yet been completed; or
- request that the Borrower reimburse the Mortgagee for the cost of the appraisal as part of foreclosure-related expenses, if the appraisal cost was validly incurred.

#### iv. Reporting Reinstatements

When a Delinquent Mortgage is reinstated, the Mortgagee must report the appropriate Account Reinstated Code in SFDMS to indicate whether:

- use of Repayment Plans or HUD's Loss Mitigation Options assisted in the reinstatement;
- reinstatement was due to a sale of the Property using a mortgage assumption; or
- the Borrower was able to reinstate the Mortgage on their own.

#### q. Foreclosure (08/19/2024)

When a Borrower with a Mortgage in Default cannot or will not resume and complete their Mortgage Payments, the Mortgagee must take steps to acquire the Property or see that it is acquired by a third party. Before starting foreclosure, the Mortgagee must review its servicing record to be certain that servicing has been performed in accordance with HUD guidance. When foreclosure is appropriate, Mortgagees must initiate and complete foreclosure in a timely manner.

#### i. Mortgagee Action before Initiation of Foreclosure

The Mortgagee must exercise reasonable diligence in collecting past due Mortgage Payments by:

- utilizing Early Delinquency Servicing Workout tools;
- determining eligibility of HUD's Loss Mitigation Program when appropriate;
- performing the first legal action to initiate foreclosure, to acquire title and possession of the Property, when necessary;
- ensuring the Mortgage has been accurately reported to consumer reporting agencies in accordance with applicable federal law; and
- ensuring any former Borrower, co-Borrower and/or co-signer personally liable for payment of the mortgage debt has been notified, as appropriate.

#### (A) Assignments for Special Mortgages

The Mortgagee must not foreclose on Mortgages insured pursuant to Sections 203(q), 247, and 248 of the National Housing Act. The Mortgagee must comply with HUD's [collection communication requirements](#) and may assign the Mortgage to HUD as follows:

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- Section 203(q) Mortgages: may assign the Mortgage to HUD, after the Mortgage has been in Default for 90 Days.
- Section 247 Mortgages: may assign the Mortgage to HUD, after the Mortgage has been in Default for 180 Days.
- Section 248 Mortgages: may assign the Mortgage to HUD, after the Mortgage has been in Default for 90 Days.

#### (B) Time Frame for Utilization of Loss Mitigation or Initiation of Foreclosure

The Mortgagee must utilize a Loss Mitigation Option or initiate foreclosure within six months of the date of Default. FHA considers the Mortgagee to have satisfied this requirement if, within the six-month time frame, the Mortgagee initiates the first public legal action to begin foreclosure or the Borrower:

- enters into or is performing as agreed on a Repayment Plan or Forbearance;
- completes a refinance of an insured cooperative housing Mortgage;
- has been approved for a Permanent Home Retention Option;
- executes an ESS Agreement;
- executes a PFS ATP; or
- executes a DIL agreement.

#### (C) When to Initiate Foreclosure

After at least three consecutive full monthly Mortgage Payments are due but unpaid, a Mortgagee may initiate a foreclosure for monetary Default if one of the following conditions is met:

- the Mortgagee has completed its review of the Borrower's loss mitigation request, determined that the Borrower does not qualify for a Loss Mitigation Option, properly notified the Borrower of this decision, and rejected any available appeal by the Borrower;
- the Borrower has failed to perform under a Loss Mitigation Agreement, and the Mortgagee has determined that the Borrower is ineligible for other Loss Mitigation Options; or
- the Mortgagee has been unable to determine the Borrower's eligibility for any Loss Mitigation Option due to the Borrower not responding to the Mortgagee's efforts to contact the Borrower;

#### (D) Exceptions to Foreclosure Initiation Time Frame

##### (1) Standard

A Mortgagee may initiate foreclosure on a Delinquent Mortgage if one of the following conditions is met:

- the Mortgagee has determined that the mortgaged Property has been abandoned or has been vacant for more than 60 Days and the Mortgagee was unable to determine the Borrower's eligibility for any Loss Mitigation



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1 Option due to the Borrower not responding to the Mortgagee's efforts to  
2 contact the Borrower;

- 3 • the Borrower has notified the Mortgagee in writing that they have no  
4 intention of fulfilling their obligation under the Mortgage after being  
5 clearly advised of the Loss Mitigation Options available for relief,  
6 including PFS and DIL;
- 7 • the mortgaged Property is not the Borrower's Principal Residence and it is  
8 occupied by tenants who are paying rent, but the Rental Income is not  
9 being applied to the mortgage debt; or
- 10 • the Property is owned by a corporation or partnership.

#### 11 (a) Vacant or Abandoned Properties

12 If the Mortgage is in Default, the Mortgagee must commence foreclosure:

- 13 • no later than six months after the date of Default; or
- 14 • no later than 120 Days after the latter of the date that:
  - 15 ○ the Property becomes vacant;
  - 16 ○ the Property is discovered or should have been discovered vacant  
17 or abandoned; or
  - 18 ○ for Properties that have two, three, or four units, all units are  
19 discovered or should have been discovered vacant or abandoned.

20 If the Mortgagee fails to inspect the Property within the required time period,  
21 or fails to discover the vacancy, the vacancy date will be the last date on  
22 which the Mortgagee should have performed the inspection.

23 If the Property becomes vacant prior to an inspection and the Mortgagee has  
24 knowledge of such vacancy, then the date the Property became vacant is the  
25 vacancy date.

#### 26 (b) Prohibition of Foreclosure due to State Legislation

27 In some states, the Mortgagee must delay, cancel, and/or reschedule a  
28 foreclosure action to comply with state law requirements. HUD provides an  
29 automatic 90-Day extension after the expiration of the time during which  
30 foreclosure is prohibited to commence, where:

- 31 • the foreclosure sale would have been conducted in the required time  
32 frame but was canceled to comply with state law; and
- 33 • the initial legal action to commence foreclosure was timely.

#### 34 (c) Prohibition of Foreclosure due to Federal Law or Regulations

35 Where a federal regulation requires a delay in the initiation of foreclosure, the  
36 Mortgagee must initiate foreclosure no later than 90 Days after the expiration  
37 of the time during which foreclosure is prohibited. The status of the Defaulted

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1 Mortgage should be reported in SFDMS using the established  
2 [Delinquency/Default Reason \(DDR\) Code](#) for federally mandated delay.

#### 3 (d) Prohibition of Foreclosure due to Bankruptcy

4 If federal bankruptcy does not permit commencement of foreclosure within  
5 the standard six-month time frame, or requires foreclosure to be discontinued,  
6 the Mortgagee must commence or, if applicable, recommence foreclosure  
7 within 90 Days after the applicable release of stay or bankruptcy discharge  
8 date.

#### 9 (e) Prohibition of Foreclosure due to Servicemembers Civil Relief Act

10 Mortgagees are allowed an automatic 90-Day extension from the date the  
11 applicable SCRA foreclosure moratorium expires.

#### 12 (f) Moratorium on Foreclosure due to Disaster

13 Mortgages secured by Properties in [Presidentially-Declared Major Disaster](#)  
14 [Areas](#) are subject to a 90-Day moratorium on the initiation of foreclosures and  
15 foreclosures already in process following the disaster.

16 HUD provides the Mortgagee an automatic 90-Day extension from the date of  
17 the moratorium expiration date to commence or recommence foreclosure  
18 action or evaluate the Borrower under HUD's Loss Mitigation for Borrowers  
19 in [PDMDAs](#).

#### 20 (2) Automatic Extensions for Foreclosure Initiation Time Frame for Loss 21 Mitigation Option

22 HUD provides automatic 90-Day extensions to the deadline to complete a Loss  
23 Mitigation Option or to perform the first legal action initiating foreclosure,  
24 provided the Mortgagee has:

- 25 • evaluated and approved the Borrower for a Loss Mitigation Option prior  
26 to the expiration of the initial six-month period to initiate foreclosure, or  
27 issued an ATP in the PFS Program resulting in early termination or option  
28 failure;
- 29 • reported the Loss Mitigation Option via SFDMS; and
- 30 • initiated foreclosure action after reviewing the Borrower for other Loss  
31 Mitigation Options from the date the Borrower defaulted under a Loss  
32 Mitigation Option or a TPP Agreement failed.

33 Mortgagees may use these automatic extensions as outlined in [Automatic](#)  
34 [Extensions to HUD's Initiation of Foreclosure Timeline](#).

35 HUD does not provide automatic extensions for completion of a DIL; the  
36 Mortgagee must submit a request for extension of time for completion of a DIL to

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1 HUD **for** approval via EVARS. HUD does not provide automatic extensions for  
2 attempting **an** assumption.

#### 3 (3) Loss Mitigation Denial

4 HUD provides an automatic 90-Day extension to the initiation of foreclosure  
5 timeline in any case in which the Mortgagee needs additional time to comply with  
6 the appeals process required by the CFPB Loss Mitigation regulations under  
7 RESPA (Regulation X) at [12 CFR § 1024.41](#).

8 The 90-Day extension begins on the date the Mortgagee denies loss mitigation  
9 and sends the Borrower the notice required under CFPB regulations.

#### 10 (4) Requests for Other or Additional Extensions to the Time Requirement to 11 Utilize Loss Mitigation Option

12 For additional time extensions, and for extensions of time for any other reason not  
13 listed above, the Mortgagee must request the extension via EVARS prior to the  
14 expiration of the existing time frame and provide:

- 15 • the dates required notices were sent to the Borrower;
- 16 • the date the Mortgagee received the Complete Loss Mitigation Request;
- 17 • the date the Mortgagee approved or denied the Borrower for Loss  
18 Mitigation Options; and
- 19 • a clear explanation of the Mortgagee's need for an extension to this  
20 deadline.

#### 21 (5) Required Documentation

22 The Mortgagee must retain documentation of form [HUD-50012](#), *Mortgagee's*  
23 *Request for Extensions of Time*, in the Servicing File and the Claim File and must  
24 ensure that all extensions of time to initiate foreclosure are reflected in its claim  
25 submission.

26 For all extensions of time requests, the Mortgagee must:

- 27 • note the reason for the extension and relevant dates that necessitated the  
28 extension and retain documentation supporting the reason and dates in the  
29 Servicing File and the Claim File;
- 30 • report the applicable status codes in [SFDMS](#); and
- 31 • report on form [HUD-27011](#), Part A:
  - 32 ○ the dates relating to the extension;
  - 33 ○ in block 19, the Expiration Date of the 90-Day extension being used;
  - 34 ○ in the "Mortgagee's Comments" section, the extension being used and  
35 the reason(s) for the extension; and
  - 36 ○ in the "Mortgagee's Comments" section, the statement, "I certify that  
37 the use of this extension is for the reason(s) stated above."

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#### (E) Curtailment of Claims and Unreasonable Property Preservation and Protection Payments

Mortgagees are responsible for [curtailment of interest](#) and exclusion of unreasonable [Property P&P payments](#).

For each curtailment time frame, the time frame begins on the earlier of the date the action should have been taken in accordance with HUD requirements or the actual date the action was taken.

#### (F) Management Review

Prior to the initiation of foreclosure, the Mortgagee must:

- develop a form or checklist to document that they have reviewed the Mortgage for foreclosure. A supervisor higher than the person submitting the Mortgage for foreclosure must sign or electronically acknowledge that they have reviewed and approve the document evidencing the decision to foreclose;
- ensure the Mortgage Holder approves of the Mortgagee's decision to foreclose, or has the delegated authority to make such decisions; and
- continue to service the Mortgage throughout foreclosure proceedings and to work with the Borrower to avoid foreclosure pursuant to the [Loss Mitigation During the Foreclosure Process](#) section requirements and program requirements related to changes in the Borrower's financial circumstances.

#### (G) Manufactured Housing Review

Due to the title evidence requirements for Manufactured Housing, the Mortgagee must:

- review each Property at the time of foreclosure referral to determine if the collateral for the FHA-insured Mortgage is a Manufactured Home; and
- ensure that all the [Title Evidence for Manufactured Housing](#) requirements are met before conveying a Manufactured Home to HUD.

#### (H) Property Assessed Clean Energy Obligation Review

The Mortgagee must:

- review each Property at the time of foreclosure referral to determine if the Property is encumbered with a PACE obligation;
- confirm that any identified PACE obligation may only become subject to an enforceable claim (i.e., a lien) for delinquent, regularly scheduled PACE special assessment payments, and otherwise complies with the following eligibility and acceptability criteria for Properties with a PACE obligation:
  - FHA case number must have been assigned prior to January 7, 2018;

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- under the laws of the state where the Property is located, the PACE obligation is collected and secured by the creditor in the same manner as special assessment taxes against the Property;
- the Property may only become subject to an enforceable claim (i.e., lien) that is superior to the FHA-insured Mortgage for delinquent, regularly scheduled PACE special assessment payments. The Property shall not be subject to an enforceable claim (i.e., lien) superior to the FHA-insured Mortgage for the full outstanding PACE obligation at any time (i.e., through acceleration of the full obligation). However, a notice of the lien for the full PACE obligation may be recorded in the land records;
- there are no terms or conditions that limit the transfer of the Property to a new homeowner. Legal restrictions on conveyance arising from a PACE obligation that could require consent of a third party before the owner can convey the Real Property are prohibited, unless such provisions may be terminated at the option of, and with no cost to, the homeowner;
- the existence of a PACE obligation on a Property is readily apparent to Mortgagees, Appraisers, Borrowers, and other parties to an FHA-insured Mortgage transaction in the public records and must show the obligation amount, the expiration date, and cause of the expiration of the assessment. In no case may Default accelerate the expiration date; and
- in the event of a sale, including a foreclosure sale, of the Property with outstanding PACE financing, the obligation continues with the Property, causing the new homeowner to be responsible for the payments on the outstanding PACE amount; and
- contact HUD for guidance if a noncompliant PACE obligation is identified.

##### ii. Conduct of Foreclosure Proceedings

When foreclosure is necessary, the Mortgagee must give timely notice to HUD via SFDMS and exercise reasonable diligence in processing and completing foreclosure proceedings to acquire good marketable title and possession of the Property. HUD expects Mortgagees to comply with all federal, state, and local laws when prosecuting a foreclosure and pursuing a possessory action.

##### (A) Initiating Foreclosure

###### (1) First Legal Action to Initiate Foreclosure

The Mortgagee must perform the first legal action to initiate foreclosure for each state as provided in [Appendix 6.0 – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time Frames](#).

###### (2) Notice to HUD of Foreclosure Initiation

The Mortgagee must give notice to HUD within 30 Days of initiating foreclosure by reporting the foreclosure status in the monthly SFDMS report.

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1 The Mortgagee must report the foreclosure status for the current cycle or  
2 following cycle in which the first required public legal action is taken to initiate  
3 foreclosure.

#### 4 **(3) Notice to HOA or Condominium Associations**

5 As part of the foreclosure proceedings, the Mortgagee must notify and serve all  
6 Interested Parties of the pending foreclosure, pursuant to state law. Unless  
7 otherwise specified by state law, Interested Parties include all condominium  
8 management companies and HOAs that are reflected in the Mortgage/origination  
9 documents, recorded covenants/declarations, initial foreclosure referral and/or  
10 title search review, or made known to the Mortgagee during the foreclosure  
11 proceedings.

#### 12 **(4) Outstanding HOA or Condominium Association Fees**

13 Unless prohibited by state law, the Mortgagee must ensure that outstanding  
14 HOA/Condominium Fees are included as part of the foreclosure proceeding.

#### 15 **(B) Servicemembers Civil Relief Act Protection during Foreclosure**

16 The Mortgagee must obtain court permission before foreclosing on a Mortgage  
17 falling under provisions of the SCRA. A foreclosure sale or Manufactured Housing  
18 repossession during the period of military service and subsequent periods specified  
19 within the SCRA is invalid unless it is:

- 20 • made pursuant to a court order granted before such sale with a return made  
21 and approved by the court; or
- 22 • held pursuant to a written agreement, entered after the commencement of  
23 Active Duty, between the parties involved.

#### 24 **(C) Loss Mitigation during the Foreclosure Process**

25 The Mortgagee may evaluate the Borrower for a Loss Mitigation Option during the  
26 foreclosure process where:

- 27 • the Borrower submits their initial Complete Loss Mitigation Request; or
- 28 • the Mortgagee has determined that the Borrower was ineligible for loss  
29 mitigation based on a Complete Loss Mitigation Request and a change in  
30 circumstances has occurred so that a Borrower may be eligible for a  
31 subsequent loss mitigation review.

#### 32 **(1) Requests Received during Foreclosure**

33 The following describes Mortgagee action regarding foreclosure proceedings and  
34 loss mitigation requests, depending on when the request is received by the  
35 Mortgagee.

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1                                   **(a) 45 or More Days to Scheduled Foreclosure Sale Date**

2                                   ***(i) Response***

3                                   When the loss mitigation request is received 45 Days or more prior to the  
4                                   scheduled foreclosure sale date, the Mortgagee must notify the Borrower  
5                                   in writing within five business days of receiving the request that:

- 6                                   • the Borrower’s request has been received; and
- 7                                   • the request is complete or incomplete.

8                                   ***(ii) Review***

9                                   Within 30 Days of receiving a Complete Loss Mitigation Request, the  
10                                   Mortgagee must:

- 11                                   • review a Borrower’s request for eligibility for all Loss Mitigation  
12                                   Options; and
- 13                                   • provide the Borrower with a notice in writing stating the  
14                                   Mortgagee’s determination of which Loss Mitigation Option, if  
15                                   any, it will offer to the Borrower.

16                                   ***(iii) Foreclosure Action***

17                                   A Mortgagee must not move forward with a scheduled foreclosure sale  
18                                   during its loss mitigation review.

19                                   **(b) More than 37 Days but Less than 45 Days to Scheduled Foreclosure**  
20                                   **Sale Date**

21                                   ***(i) Review***

22                                   Within 30 Days of receiving a Complete Loss Mitigation Request, the  
23                                   Mortgagee must review a Borrower’s request for eligibility for Loss  
24                                   Mitigation Options when received more than 37 Days but less than 45  
25                                   Days to the scheduled foreclosure sale date.

26                                   If an incomplete request is received and is not completed despite the  
27                                   Mortgagee’s repeated requests to the Borrower for information, the  
28                                   Mortgagee may, at its discretion, evaluate an incomplete loss mitigation  
29                                   request and offer a proprietary, non-incentivized Loss Mitigation Option.

30                                   ***(ii) Foreclosure Action***

31                                   The Mortgagee must not move forward with a scheduled foreclosure sale  
32                                   during its loss mitigation review.

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#### (c) 37 or Fewer Days Prior to the Scheduled Foreclosure Sale Date

##### (i) Review

A Mortgagee must use its best efforts to complete a thorough and accurate review when the Borrower's request is received 37 Days or fewer, prior to the scheduled foreclosure sale date.

##### (ii) Foreclosure Action

HUD does not require the Mortgagee to suspend the foreclosure sale. The Mortgagee may proceed with a foreclosure sale if the Mortgagee:

- determines after its review of available information that a Borrower is ineligible for loss mitigation; or
- using its best efforts, is still unable to complete a thorough and accurate review of a Borrower's request by the scheduled foreclosure sale date.

#### (2) Terminating Foreclosure Proceedings for Loss Mitigation

When a Borrower requests loss mitigation assistance for the first time during a Default episode after the Mortgagee has initiated foreclosure, the Mortgagee must suspend and/or terminate the foreclosure proceedings, depending on the state law requirement, after the Mortgagee has:

- verified that a Borrower qualifies for a Loss Mitigation Option; and
- allowed the Borrower at least 14 Days to consider the Mortgagee's offer of loss mitigation assistance, if the request for loss mitigation was received more than 37 Days prior to the scheduled foreclosure sale date; and
- provided a TPP agreement to the Borrower, received an executed Loss Mitigation Agreement, where applicable, or sales contract from the Borrower.

If state law requires the Mortgagee to cancel a foreclosure action and then requires the Mortgagee to re-initiate the action at a later date, if needed, the Mortgagee must request HUD approval via EVARS for an extension of time to the first legal action deadline prior to approving the Borrower for loss mitigation.

#### (3) Communication Between Departments

The Mortgagee must ensure that strong communication lines are established between the Loss Mitigation and Foreclosure departments to facilitate the coordination of loss mitigation efforts and the sharing of documentation and information relating to a Borrower's delinquency. Both departments must be aware of when a Borrower's file is under review for HUD's Loss Mitigation Program.



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1           **(D) Borrower Sale of the Property before Foreclosure Sale**

2           HUD encourages the Mortgagee, when possible, to provide the Borrower with an  
3           opportunity to sell the Property and to provide a reasonable time to complete the sale.  
4           The Mortgagee should not initiate foreclosure if it appears that a sale is probable and  
5           should accept payments tendered while the Property is for sale and before foreclosure  
6           is started.

7           **(E) Reasonable Diligence in Completing Foreclosure**

8           **(1) Definition**

9           The Reasonable Diligence Time Frame is the time period beginning at the earlier  
10          of the date the first legal action should have been filed in accordance with HUD  
11          time frames or the date the actual first legal action required by the jurisdiction to  
12          commence foreclosure was taken, and ending with the later date of acquiring  
13          good marketable title to, and possession of, the Property.

14          **(2) Standard**

15          The Mortgagee must exercise reasonable diligence when processing foreclosures  
16          and acquiring title to and possession of Properties, in accordance with HUD's  
17          [Reasonable Diligence Time Frames](#).

18          When circumstances beyond the Mortgagee's control occur, the Mortgagee may  
19          treat delays in completing the foreclosure process as exceptions to the Reasonable  
20          Diligence Time Frames and may exclude such delays when calculating the time to  
21          complete a foreclosure if an extension has been granted by HUD.

22                 **(a) Delay due to Use of Loss Mitigation Home Retention Option**

23                 When determining compliance with the Reasonable Diligence Time Frame,  
24                 the Mortgagee may exclude the time that the Borrower was performing under  
25                 a **Repayment Plan, Forbearance**, or TPP.

26                 **(b) Delay due to Foreclosure Mediation**

27                 Where mediation is required after the initiation of foreclosure but before the  
28                 foreclosure sale, the Mortgagee may exclude the time required to complete the  
29                 mediation when determining compliance with the Reasonable Diligence Time  
30                 Frame.

31                 **(c) Delay due to Active Duty Military Service**

32                 If a Borrower is on Active Duty military service and the Mortgage was  
33                 obtained prior to entry into Active Duty military service, the Mortgagee may

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1 exclude the period during which the Borrower is on Active Duty military  
2 service when computing the Reasonable Diligence Time Frame.

#### 3 **(d) Delay due to Bankruptcy**

4 When a Borrower files bankruptcy after foreclosure proceedings have been  
5 initiated, an automatic 90-Day extension for foreclosure and acquisition of the  
6 Property will be allowed if:

- 7 • the Mortgagee ensures that all necessary bankruptcy-related legal  
8 actions are handled in a timely and effective manner;
- 9 • the case is promptly referred to a bankruptcy attorney after the  
10 bankruptcy is filed; and
- 11 • the Mortgagee monitors the action to ensure that the case is timely  
12 resolved through dismissal, termination of the automatic stay, or  
13 trustee abandonment of all interest in the secured Property.

14 The time frame for completing the bankruptcy action will vary based on the  
15 chapter under which the bankruptcy is filed.

#### 16 **(i) Chapter 7 Bankruptcy**

17 HUD allows the Mortgagee an additional 90 Days from the date of the  
18 release of stay of the Chapter 7 bankruptcy to commence or recommence  
19 the foreclosure.

#### 20 **(ii) Chapter 11, 12, or 13 Bankruptcy**

21 When the Mortgagee cannot proceed with foreclosure action because of a  
22 Chapter 13 (or Chapter 11 or 12) bankruptcy, the Mortgagee must closely  
23 monitor the payments required by the bankruptcy court. If the Borrower  
24 becomes 60 Days delinquent in payments required under a Chapter 13 (or  
25 Chapter 11 or 12) plan, the Mortgagee must ensure that prompt legal  
26 action is taken to resolve the matter.

27 Any delay the Mortgagee encounters must be fully documented and must  
28 be beyond the Mortgagee's control.

#### 29 **(e) Delay in Acquiring Possession**

30 When a separate legal action is necessary to gain possession following  
31 foreclosure, an automatic extension of the Reasonable Diligence Time Frame  
32 will be allowed to cover the actual time necessary to complete the possessory  
33 action.

34 HUD provides this automatic extension if the Mortgagee takes the first  
35 required public legal action to initiate the eviction or possessory action within  
36 30 Days of the later of:

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- 1                                   • the completion of foreclosure proceedings; or
- 2                                   • the expiration of federal or local restrictions on eviction.

3                                   The additional time needed under applicable federal, state, or local laws to  
4                                   obtain possession of a Property is taken into consideration when evaluating a  
5                                   Mortgagee's compliance with HUD's Reasonable Diligence Time Frame.  
6                                   Upon the expiration period associated with the applicable occupancy rights,  
7                                   Mortgagees are expected to proceed promptly with possessory actions.

#### 8                                   **(3) Required Documentation**

9                                   The Mortgagee must document in the Servicing File and the Claim File any delay  
10                                   in completing foreclosure and all activities performed by the Mortgagee to  
11                                   mitigate and abide by these time frames. The Mortgagee must maintain a  
12                                   comprehensive audit trail and chronology to support any delay in compliance with  
13                                   the Reasonable Diligence Time Frames.

14                                   Where the Mortgagee has submitted a request for an extension of time to HUD  
15                                   via EVARS, the Mortgagee must maintain a copy of HUD's written response in  
16                                   the Servicing File and the Claim File. The request should be made as soon as  
17                                   possible, but before the time limit for that action expires.

18                                   For automatic extensions, the Mortgagee must reflect these extensions in form  
19                                   HUD-27011 and retain in the Servicing File and the Claim File documentation  
20                                   supporting those extensions.

#### 21                                   **(F) Allowable Foreclosure Attorney Fees and Fees Associated with Bankruptcy 22                                   Clearance, Possessory Actions, and Completion of a DIL**

##### 23                                   **(1) Definition**

24                                   The [Fannie Mae Allowable Foreclosure Attorney Fees Exhibit](#) provides the  
25                                   maximum amount of foreclosure attorney fees that HUD will reimburse for work  
26                                   actually performed.

27                                   The [Fannie Mae Allowable Bankruptcy Attorney Fees Exhibit](#) provides the  
28                                   maximum amount of bankruptcy attorney fees that HUD will reimburse for work  
29                                   actually performed.

30                                   [Appendix 5.0 – HUD Schedule of Standard Possessory Action and Deed-In-Lieu  
31                                   of Foreclosure Attorney Fees \(Applies to Servicing Only\) \(03/31/2022\)](#) provides  
32                                   the maximum amount of fees that HUD will reimburse for work actually  
33                                   performed related to possessory actions and the completion of a DIL.

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### (2) Standard

HUD will reimburse Mortgagees for reasonable and customary fees for work actually performed related to the current Default episode that were paid to attorneys and trustees in connection with the foreclosure of a Mortgage, fees associated with bankruptcy clearance, possessory actions and/or completion of a DIL.

For additional expenses incurred due to required legal actions, the Mortgagee may claim reimbursement for these costs by:

- providing a documented cost breakdown and written justification with the claim submission and retaining a copy in the Claim File; and
- filing a supplemental claim for amounts above the maximum fee.

If a Mortgagee suspends or cancels a foreclosure action to perform loss mitigation, or if the Mortgage is reinstated or paid in full, the Mortgagee may only charge the Borrower for attorney fees incurred for the work performed up to the point of the cessation.

#### (a) Allowable Foreclosure Attorney Fees

Mortgagees may claim reimbursement from HUD for attorney fees related to routine foreclosure actions for the preferred method of foreclosure based on the [Fannie Mae Allowable Foreclosure Attorney Fees Exhibit](#) in the Fannie Mae Servicing Guide Exhibits & Resources. The amount claimed for attorney fees cannot exceed the actual fees charged for work performed.

Mortgagees may not request HUD approval to proceed with a method of foreclosure in states where an amount is not specified on the Fannie Mae Allowable Foreclosure Attorney Fees Exhibit. The footnotes included are not applicable to FHA-insured Mortgages.

Fannie Mae revises this Exhibit frequently, so Mortgagees must ensure the fees claimed for reimbursement are based on the Exhibit in effect as of the date foreclosure is initiated. HUD reserves the right to revise amounts which it considers reasonable and customary at any time.

Mortgagees may claim no more than 75 percent of the maximum attorney fee for fees incurred for a routine foreclosure that was not completed because any of the following occurred after the Mortgagee initiated foreclosure:

- the Borrower filed a bankruptcy petition;
- the Borrower successfully completed a Home Retention Option;
- the Borrower successfully completed a PFS; or
- the Borrower executed a DIL.

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1                                   **(b) Allowable Bankruptcy Attorney Fees**

2                                   Mortgagees may claim reimbursement from HUD for routine bankruptcy  
3                                   clearance actions based on the [Fannie Mae Allowable Bankruptcy Attorney](#)  
4                                   [Fees Exhibit](#) in the Fannie Mae Servicing Guide Exhibits & Resources. The  
5                                   amount claimed cannot exceed the actual fees charged for work performed.

6                                   Fannie Mae revises this Exhibit frequently, so Mortgagees must ensure the  
7                                   fees claimed for reimbursement are based on the Exhibit in effect as of the  
8                                   date the Borrower’s bankruptcy is filed. HUD reserves the right to revise  
9                                   amounts which it considers reasonable and customary at any time.

10                                  **(c) Fees Associated with Possessory Actions or Completion of a DIL**

11                                  Mortgagees may claim reimbursement from HUD for the fees associated with  
12                                  possessory action and completion of a DIL as listed in Appendix 5 HUD  
13                                  Schedule of Standard Possessory Action and Deed-In-Lieu Attorney Fees. The  
14                                  amount claimed cannot exceed the actual fees charged for work performed.

15                                  **(3) Required Documentation**

16                                  Mortgagees are expected to maintain documentation in the Servicing File and the  
17                                  Claim File to support all allowable fees.

18                                  **(G) Electronic Record Retention of Foreclosure-Related Documents**

19                                  The Mortgagee must retain documents relating to loss mitigation review in electronic  
20                                  format, in addition to requirements for retaining hard copies or originals of  
21                                  foreclosure-related documents, for foreclosures occurring on or after October 1, 2014.  
22                                  These documents include, but are not limited to:

- 23   • evidence of the Mortgagee’s foreclosure committee recommendation;
- 24   • the Mortgagee’s Referral Notice to a foreclosure attorney, if applicable; and
- 25   • a copy of the document evidencing the first legal action necessary to initiate  
26   foreclosure and all supporting documentation.

27                                  **iii. Claims Without Conveyance of Title (07/12/2022)**

28                                  **(A) Definitions**

29                                  A Claims Without Conveyance of Title (CWCOT) is a procedure under which the  
30                                  Mortgagee attempts to secure a third-party purchaser for the mortgaged Property so  
31                                  that conveyance to HUD is not required in exchange for mortgage insurance benefits.

32                                  A Competitive Sale is a CWCOT-related sale where a Mortgagee elects to use an  
33                                  independent third-party provider to conduct the foreclosure sale or in connection with  
34                                  any post-foreclosure sales efforts and where the Property is marketed for a minimum  
35                                  of 15 Days.

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1 A Non-Competitive Sale is a CWCOT-related sale where a Mortgagee elects not to  
2 use an independent third-party provider to conduct the foreclosure sale or in  
3 connection with any post-foreclosure sales efforts and/or the Property is not marketed  
4 for a minimum of 15 Days.

#### 5 **(B) Qualification Criteria for Use of Commissioner’s Adjusted Fair Market** 6 **Value**

##### 7 **(1) Definition**

8 The Commissioner’s Adjusted Fair Market Value (CAFMV) is the estimate of the  
9 FMV of the mortgaged Property, less adjustments, which may include without  
10 limitation, HUD’s estimate of holding costs and resale costs that would be  
11 incurred if title to the mortgaged Property were conveyed to HUD.

##### 12 **(2) Standard**

13 Mortgagees must use the CAFMV for all foreclosure sales and post-foreclosure  
14 sales efforts associated with defaulted FHA-insured Mortgages when eligible for  
15 CWCOT. A Mortgage is eligible for CWCOT when all the following criteria are  
16 met:

- 17 • the FHA-insured mortgage insurance is still active for the FHA case  
18 number;
- 19 • the Mortgagee has worked with the Borrower to exhaust all applicable  
20 Home Retention Options and has determined that the Borrower’s case  
21 does not meet the criteria for a Home Disposition Option, or the  
22 Mortgagee has been unable to locate the Borrower and the Property is  
23 vacant or has been abandoned by the Borrower; and
- 24 • the Property has no Surchargeable Damage.

##### 25 **(3) Small Servicer Exemption**

###### 26 **(a) Definition**

27 Small Servicers are those Servicers defined in [12 CFR § 1026.41\(e\)\(4\)\(ii\)](#).

###### 28 **(b) Standard**

29 HUD permits but does not require the use of CAFMV by small servicers.

#### 30 **(C) Property Valuation and Commissioner’s Adjusted Fair Market Value**

##### 31 **(1) Required Appraisal**

32 Unless otherwise directed by HUD, Mortgagees must first obtain, and review for  
33 accuracy, an “As-Is” FHA appraisal, which includes both an interior and exterior  
34 evaluation of the Property.

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1 If the Property is occupied and an interior appraisal cannot be obtained, an  
2 “exterior-only” appraisal may be used.

#### 3 (a) Appraisal Validity Period

4 The appraisal must be valid on the date of the foreclosure sale. Appraisals are  
5 valid for 180 Days from the effective date of the appraisal report.

#### 6 (b) Extension to Appraisal Validity Period

7 HUD provides an automatic 30-Day extension from the appraisal expiration  
8 date for delays due to bankruptcy, court delays, or delays outside of the  
9 Mortgagee’s control. The Mortgagee must request and obtain HUD approval  
10 via EVARS for extensions beyond the automatic 30-Day extension.

#### 11 (c) Subsequent Appraisals for Post-Foreclosure Sales Efforts

12 If a Property that had an exterior-only appraisal becomes vacant, the  
13 Mortgagee must obtain a new appraisal that includes both an interior and  
14 exterior inspection if:

- 15 • before foreclosure, any delay due to obtaining a new appraisal will not  
16 cause the foreclosure sale to be canceled; or
- 17 • after foreclosure, the Mortgagee conducts post-foreclosure sales  
18 efforts.

19 Mortgagees must use an FHA Roster Appraiser to conduct the new appraisal.

20 HUD will reimburse the Mortgagee for the cost of one new appraisal  
21 following vacancy through the FHA insurance claim.

#### 22 (d) Required Documentation

23 Mortgagees must upload the appraisal information and related FHA case  
24 number through HUD’s system of record (P260) within 30 Days of the date of  
25 the appraisal.

#### 26 (2) Determining the CAFMV

27 After determining the Property’s appraised value using the most recent appraisal,  
28 the Mortgagee’s authorized employees must access the CAFMV link in [FHAC](#) to  
29 determine a Property’s CAFMV. The CAFMV remains valid and in effect for 120  
30 Days from the date of the appraisal.

31 In jurisdictions where the Mortgagee is required to bid a specific amount at  
32 foreclosure, that amount will be deemed to be the CAFMV for purposes of the  
33 initial foreclosure; however, the Mortgagee’s authorized employees must access

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1 the CAFMV link in [FHAC](#) to determine a Property's CAFMV for use in any post-  
2 foreclosure sales efforts.

3 To facilitate a CWCOT post-foreclosure sales effort, the Mortgagee may  
4 contribute an additional amount needed to raise a third party's bid to the CAFMV  
5 and allow the sale of the Property to such third party. HUD will not reimburse any  
6 contribution by the Mortgagee to facilitate the sale through the FHA insurance  
7 claim.

#### 8 **(3) Damage to the Property after Appraisal**

9 The Mortgagee must request a variance from **HUD** via EVARS to proceed with  
10 the current appraised value if the Mortgagee becomes aware that the Property  
11 sustained significant damage, other than damage resulting from Borrower neglect,  
12 that may impact the value after the appraisal was completed. If **HUD** denies this  
13 request, additional instructions will be provided with the denial.

#### 14 **(4) Updated Appraisals due to Postponed Foreclosure Sales**

15 If the foreclosure sale does not take place within 180 Days from the effective date  
16 of the appraisal, and within such additional time provided under [Extension to](#)  
17 [Appraisal Validity Period](#), the Mortgagee must request an updated appraisal and  
18 obtain an updated CAFMV.

#### 19 **(D) Independent Third-Party Providers**

##### 20 **(1) Definition**

21 An Independent Third-Party Provider is a party that conducts the foreclosure sale  
22 or post-foreclosure sales efforts, including marketing efforts in support of such  
23 sales under CWCOT procedures, and who is not one of the following:

- 24 • an Affiliate or subsidiary of the Mortgagee;
- 25 • any entity over which the Mortgagee has significant influence; or
- 26 • any entity with which the Mortgagee has a conflict of interest in fact or  
27 appearance.

##### 28 **(2) Standard**

29 Where permitted by the jurisdiction, the Mortgagee may utilize an independent  
30 third-party provider to market the Property prior to any foreclosure or post-  
31 foreclosure sales efforts or to conduct such sales to ensure maximum competition  
32 for both the foreclosure sale and post-foreclosure sales.

33 The Mortgagee may only use an independent third-party provider that agrees, in  
34 writing, to share sales and auction reporting information with the Mortgagee and  
35 HUD.



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1 For successful third-party sales, HUD will reimburse expenses relating to the  
2 Mortgagee's use of an independent third-party provider to market or conduct the  
3 foreclosure sale or post-foreclosure sales efforts, provided the Property was  
4 marketed for a minimum of 15 Days before each scheduled sale. HUD will  
5 reimburse such independent third-party provider expenses incurred for successful  
6 third-party sales up to an amount that does not exceed:

- 7 • 3 percent of the Property's sales price where the independent third-party  
8 provider markets the Property, but does not conduct the sale; or
- 9 • 5 percent of the Property's sales price where the independent third-party  
10 provider markets the Property and conducts the sale.

11 Closing costs of the sale are to be paid by the third-party purchaser or the  
12 Mortgagee. Revenue sharing agreements of the reimbursed fee between the  
13 Mortgagee and the independent third-party provider are prohibited.

#### 14 **(E) CWCOT Bidding at the Foreclosure Sale**

15 The CAFMV is multi-tiered:

- 16 • at the foreclosure sale, the Mortgagee must bid the CAFMV which is the FHA  
17 calculation or the state-mandated foreclosure price, if applicable; and
- 18 • at post-foreclosure sales opportunities, the CAFMV is the FHA calculation,  
19 which may be adjusted if the Property had an exterior-only appraisal and is  
20 vacant after the foreclosure sale.

#### 21 **(1) Mortgagee as Successful Bidder**

##### 22 **(a) Amount Equal to the CAFMV**

23 If the Mortgagee is the successful bidder for an amount equal to the CAFMV,  
24 the Mortgagee may elect to either:

- 25 • retain title to the Property and file a claim for insurance benefits under  
26 CWCOT; or
- 27 • convey the title to the Property to HUD and its claim for insurance  
28 benefits as a conveyance claim.

##### 29 **(b) Amount Greater than CAFMV**

30 Where the Mortgagee's bid exceeds the CAFMV, resulting in the Mortgagee  
31 acquiring title to the Property at a foreclosure sale, unless the sheriff or other  
32 appropriate local authority has mandated the subject bid as the minimum bid  
33 that could be set for the Property, the Mortgagee is deemed to have elected to  
34 retain title of the Property and the Mortgagee's FHA claim for insurance  
35 benefits will be calculated in accordance with [24 CFR § 203.401\(b\)](#). The  
36 Mortgagee may not utilize post-foreclosure sales efforts and may not convey  
37 title to the Property to HUD.

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1                   **(2) Third Party as Successful Bidder**

2                   **(a) Amount Equal to or Greater than CAFMV**

3                   Where a third party is the successful bidder at the foreclosure sale for an  
4                   amount equal to or greater than the CAFMV, the Mortgagee must submit its  
5                   claim for insurance benefits under CWCOT.

6                   **(b) Amount Less than CAFMV**

7                   Where a third party is the successful bidder at the foreclosure sale for an  
8                   amount less than the CAFMV, the Mortgagee may not file a claim for any  
9                   insurance benefits.

10                  **(3) Borrower or Third Party Redemption**

11                  Notwithstanding the foreclosure sale, the Borrower or a third party may exercise a  
12                  legal right and redeem the Property.

13                  Where the Borrower or a third party redeems the Property and acquires title for an  
14                  amount not less than the CAFMV, the Mortgagee must submit its claim for  
15                  insurance benefits under CWCOT.

16                  **(F) CWCOT Post-Foreclosure Sales Efforts**

17                  If the Property does not sell to a third party at the foreclosure sale, the Mortgagee  
18                  may pursue post-foreclosure sales efforts and may utilize independent third-party  
19                  providers to conduct such sales prior to making a final decision to convey a Property  
20                  to HUD.

21                  The Mortgagee's third-party provider must indicate that the Property is being sold in  
22                  an "as is" condition, and the condition is unknown and may include defects, possible  
23                  health or safety hazards, or debris, or be located in a Special Flood Hazard Area  
24                  (SFHA).

25                  Where the Property is occupied, based on the appraisal or property inspection, the  
26                  Mortgagee's third-party provider must clearly indicate that the Property is occupied  
27                  in the auction information.

28                  **(1) CWCOT Post-Foreclosure Sales Periods**

29                  **(a) Exclusive Post-Foreclosure Sales Period**

30                  Mortgagees that utilize the post-foreclosure sales efforts must list the Property  
31                  for sale for an initial 30-Day period exclusively for Owner-Occupant Buyers,  
32                  HUD-approved Nonprofits, and Governmental Entities.

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1 Where the Property is vacant, the Mortgagee's third-party provider must  
2 provide the buyer the opportunity to:

- 3 • conduct any non-destructive tests, surveys, appraisals, investigations,  
4 examinations, or inspections of the Property as the buyer deems  
5 appropriate at the buyer's expense; and
- 6 • order a search of title documents, HOA or condominium association  
7 records, and other governmental and non-governmental records related  
8 to the Property, and conduct due diligence as to the insurability of the  
9 Property and types and amounts of insurance required or desired for  
10 the Property (e.g., flood, hazard, title, etc.) at the buyer's expense.

##### 11 **(i) Contract Cancellation**

12 The Mortgagee's third-party provider must provide the buyer a minimum  
13 of 15 Days after the date of the sales contract ratification to cancel the  
14 sales contract due to property condition.

15 The Mortgagee's third-party provider must provide the buyer an  
16 opportunity to cancel the sales contract due to title issues at least seven  
17 Days prior to the closing date.

18 Upon timely notice of cancellation, the earnest money deposit paid by the  
19 buyer shall be returned to the buyer. If the buyer fails to furnish timely  
20 written notice of cancellation, the Mortgagee's third-party provider may  
21 consider that the buyer has elected to proceed with the transaction.

##### 22 **(ii) Verification of Buyers during Exclusive Sales Period**

23 The Mortgagee must ensure that any successful bidder meets the following  
24 buyer type and related requirements for the exclusive sales period:

- 25 • Owner-Occupant Buyers must provide a signed statement that they  
26 intend to use the Property as their Principal Residence;
- 27 • HUD-approved Nonprofits must appear on [the list of HUD-](#)  
28 [approved Nonprofits](#) under any of the authorizations listed; or
- 29 • Governmental Entities must provide a signed statement on their  
30 letterhead stating that they are a Governmental Entity.

##### 31 **(b) Extended Post-Foreclosure Sales Period**

32 If the Property does not sell during the exclusive 30-Day period, then the  
33 Mortgagee must offer the Property for sale to all third parties for an additional  
34 60-Day period.

#### 35 **(2) Extensions of Time Frames to Engage in Post-Foreclosure Sales Efforts**

36 HUD will provide the Mortgagee with an automatic extension of the conveyance  
37 time frames to attempt post-foreclosure sales efforts and commence possessory

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1 action, where applicable, for 90 Days from the date the foreclosure deed is filed  
2 for recording or the expiration of the redemption period, if applicable, in  
3 circumstances where the Mortgagee complied with all foreclosure time frames.

#### 4 (a) Conveyance Time Frame if Property Does Not Sell

5 If the Property does not sell through the post-foreclosure sales efforts, the  
6 Mortgagee must convey the Property to HUD within 30 Days of the end of the  
7 post-foreclosure sales period.

#### 8 (b) Extension of Conveyance Time Frame to Allow for Closing

9 Where a sales contract has been ratified before the expiration of the 90-Day  
10 period, HUD will provide the Mortgagee with an additional, automatic 60-  
11 Day extension to the deadline for conveyance, from the date the sales contract  
12 has been ratified, to allow for closing of the sale.

#### 13 (3) Preservation and Protection during Post-Foreclosure Sales Periods

14 The Mortgagee must preserve and protect the Property in accordance with HUD  
15 requirements during the post-foreclosure sales periods and throughout any  
16 approved extensions to deadlines for conveyance. HUD will reimburse the  
17 Mortgagee through the FHA insurance claim for all reasonable preservation,  
18 protection, and eviction expenses incurred prior to the expiration of any extension  
19 of the deadlines for conveyance, as listed in [Property Preservation Allowances](#).

#### 20 r. Acquiring Possession (03/31/2022)

21 On the date the deed is filed for recording, the Mortgagee must certify that the Property is  
22 vacant and free of Personal Property, unless HUD has agreed to accept title with the Property  
23 occupied. This, and the procedures described below, applies whether title is acquired by  
24 foreclosure or by DIL of Foreclosure.

#### 25 i. Applicable Law Protecting Tenants

26 When determining compliance with the Reasonable Diligence Time Frame, the  
27 Mortgagee may exclude the time required to comply with federal, state, and local laws  
28 extending the time required to complete possessory actions.

#### 29 ii. Identification of Property Occupants

30 Before completion of foreclosure the Mortgagee must:

- 31 • confirm the identity of all occupants;
- 32 • determine each occupant's possible rights for continued occupancy under HUD's
- 33 Occupied Conveyance procedures; and

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- follow HUD’s Occupied Conveyance procedures by sending occupants the Notice to Occupant of Pending Acquisition (NOPA) 60 to 90 Days before the Mortgagee expects to acquire title.

#### iii. Notice to Occupant of Pending Acquisition

##### (A) Definition

The Notice to Occupant of Pending Acquisition (NOPA) is a notice to the Borrower and heads of household that the Mortgagee will be acquiring title to the Property and then conveying the Property to HUD.

##### (B) Standard

At least 60 Days but not more than 90 Days before the Mortgagee reasonably expects to acquire title, the Mortgagee must notify the Borrower and each head of household occupying a unit of the Property of the possibility that the Mortgagee will convey the Property to HUD following foreclosure. The Mortgagee is not required to postpone the foreclosure sale to comply with the 60-Day requirement, if the foreclosure sale is scheduled for less than 60 Days following the completion of bankruptcy proceedings.

In the event the foreclosure sale is postponed, the NOPA is valid up to 120 Days from the date it was originally mailed.

The [NOPA](#) must:

- provide a summary of the conditions under which continued occupancy is permissible;
- advise the Borrower:
  - that potential acquisition of the Property by HUD is pending;
  - that HUD requires Properties be vacant at the time of conveyance to HUD, unless the Borrower or other occupant can meet the regulatory conditions for continued occupancy, the habitability criteria, and the eligibility criteria;
  - of the process for requesting to remain in the Property; and
  - the Property must otherwise be vacated before the scheduled time of acquisition; and
- be sent via certified mail or with a signature confirmation service to ensure receipt of the notice by all required occupants.

##### (C) Required Documentation

The Mortgagee must provide to HUD’s [MCM](#) by uploading into [P260](#):

- an electronic copy of each NOPA; and
- all documentation and information obtained regarding existing leases and tenancies.

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#### iv. Occupied Conveyance Requests to HUD

##### (A) Definition

An Occupied Conveyance is the conveyance to HUD of a Property that is not vacant.

##### (B) Standard

HUD notifies the Mortgagee if it has received an occupant's request to remain in the Property. If the Mortgagee has not received such notification from HUD within 45 Days after sending the notice, the Mortgagee must convey the Property as vacant, unless otherwise directed by the [MCM](#).

##### (C) Approved Occupied Conveyance Requests

If HUD grants Occupied Conveyance, the Mortgagee must convey the Property occupied under HUD's Occupied Conveyance regulations and procedures provided by the MCM per [24 CFR § 203.670](#).

##### (D) Denied Occupied Conveyance Requests

If HUD denies Occupied Conveyance, the Mortgagee must determine if there is occupancy protection under federal, state, or local law that would require the Mortgagee to delay possessory action. If the Mortgagee determines that such laws are applicable, the Mortgagee must:

- follow those requirements before evicting the occupant; and
- attempt to obtain documentation of existing leases and tenancies for the Servicing File and the Claim File as evidence of the applicability of the occupancy protection laws and the additional time needed to comply with them.

#### v. Rents under Bona Fide Leases

The Mortgagee must attempt to:

- collect rents payable under bona fide leases and tenancies providing post-foreclosure occupancy rights; and
- in the event of Default, take possessory action pursuant to the rental contract terms and applicable law.

The Mortgagee must reflect any rents it received during the term of the bona fide lease or tenancy on its [claim](#) for mortgage insurance benefits.

#### vi. Preservation and Protection Costs due to Extended Lease or Tenancy

The Mortgagee may request reimbursement of [additional routine P&P costs](#), including lawn maintenance and inspections that are incurred as a result of an extended lease or tenancy under applicable law.

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#### vii. Cash for Keys Consideration

##### (A) Definition

Cash for Keys is a monetary incentive offered to occupants for vacating the Property as an alternative to legal eviction after foreclosure.

##### (B) Standard

If property occupants fail to vacate the Property after receiving the first Notice to Quit, the Mortgagee may offer up to \$7,500 per dwelling in exchange for the occupants vacating the Property within 30 Days of the Cash for Keys offer or up to \$5,000 per dwelling in exchange for the occupants vacating the Property within 60 Days of the Cash for Keys offer. Before releasing the funds, the Mortgagee must inspect the Property to ensure that:

- the Property is in Broom-swept Condition; and
- all built-in appliances and fixtures remain in the Property.

##### (C) Required Documentation

The Mortgagee must document in the Servicing File and the Claim File the date and amount of the Cash for Keys offer, the date of the actual vacancy, and the date the occupant received the funds.

#### viii. Evictions and Eviction Personnel

##### (A) Standard

The Mortgagee must ensure that evictions are conducted in accordance with state and local law and send:

- no more than four people for a townhouse or condominium to complete the eviction; and
- no more than six people for a Single Family detached dwelling to complete the eviction.

##### (B) Required Documentation

The Mortgagee must include in the Servicing File and the Claim File:

- photographs showing that all Personal Property and debris have been removed from the Property as part of the eviction;
- the number of people required and present to complete the eviction;
- whether the eviction was canceled or re-scheduled; and
- documentation supporting eviction costs, including costs due to state or local law requirements for eviction time frame, removal, or storage.

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#### 1 s. Conveyance of Acquired Properties (11/07/2023)

##### 2 i. HUD Contact

##### 3 (A) Mortgagee Compliance Manager

4 HUD's [MCM](#) is the single point of contact to administer Mortgagee compliance  
5 functions and Property P&P activities.

##### 6 (B) P260

7 [P260](#) is HUD's web-based internet portal, which allows Mortgagees to submit  
8 requests, notifications, and documents and obtain approvals for pre- and post-  
9 conveyance activities.

##### 10 ii. Conveyance Time Frame

11 The Mortgagee must acquire clear, marketable title and transfer the Property to HUD  
12 within 30 Days of the latter of:

- 13 • recordation of the foreclosure deed;
- 14 • recordation date of a DIL of Foreclosure;
- 15 • acquisition of the Property;
- 16 • expiration of the redemption period; or
- 17 • HUD-approved extensions of time.

18 In cases where the Mortgagee arranges for a direct conveyance of the Property to the  
19 Secretary, the Mortgagee must convey the Property to HUD within 30 Days of the end of  
20 the Reasonable Diligence Time Frame.

##### 21 iii. Condition of Properties

##### 22 (A) Acceptable Conveyance Condition

##### 23 (1) Definitions

24 Acceptable Conveyance Condition refers to the required condition of a Property  
25 at the time of conveyance to HUD.

26 Broom-swept Condition refers to the condition of a Property that is, at a  
27 minimum, reasonably free of dust and dirt and free of hazardous materials or  
28 conditions, Personal Property, and interior and exterior debris.

##### 29 (2) Standard

30 At the time of conveyance to HUD, the Mortgagee must ensure that the Property  
31 meets all Acceptable Conveyance Conditions as follows:



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- The Property is undamaged by fire, flood, earthquake, hurricane, tornado, boiler explosion (if a condominium), or Mortgagee Neglect.
- The Property is secured and, if applicable, winterized.
- All [insured damages including theft and vandalism](#), if any, are repaired per the scope of work indicated on the insurance documents.
- Interior and exterior debris is removed, with the Property's interior maintained in Broom-swept Condition, the lawn is maintained, and all vehicles and any other Personal Property are removed in accordance with state and local requirements.
- The Mortgagee has good and marketable title.

#### (B) Mortgage Property Preservation and Protection Action

##### (1) Definitions

Property Preservation and Protection (P&P) actions are maintenance, security, and repair work required by HUD in order to ensure that the Property meets HUD's conveyance condition standards.

Mortgagee Neglect refers to the Mortgagee's failure to take action to preserve and protect the Property from the time it is determined (or should have been determined) to be vacant or abandoned, until the time it is conveyed to HUD.

##### (2) Standard

The Mortgagee must preserve and protect Properties that are the security for FHA-insured Mortgages that are in Default or presently in foreclosure. The Mortgagee is responsible for the management, scheduling, and execution of all activities and actions taken to preserve, secure, maintain and protect the Property, regardless of the amount that HUD may reimburse.

Mortgagees may use any qualified individual or business to perform P&P services on Properties that were secured by FHA-insured Mortgages; however, the Mortgagee remains fully responsible to HUD for its actions and the actions of its agents, individuals, and firms that performed such services.

The Mortgagee remains responsible for property damage or destruction to a vacant or abandoned Property resulting from Mortgagee Neglect. Such neglect includes, but is not limited to:

- failure to adequately and accurately verify the occupancy status of a Property;
- failure to complete timely and accurate property inspections;
- failure to promptly and appropriately secure and continue to preserve and protect all vacant Properties according to HUD standards; and
- failure to promptly notify the [MCM](#) of receipt of code violations and demolition notices and/or take appropriate action.

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1 To ensure that the Mortgagee is not held liable for damage or delayed  
2 maintenance to the Property by the Borrower, their heirs, successors, or assigns,  
3 the Mortgagee must document and photograph any damage resulting from the  
4 Borrower that is identified during the [First-Time Vacant Property Inspection](#).

#### 5 **(3) Photograph Requirements**

6 The Mortgagee must use digital photography to document:

- 7 • the condition of the Property at the FTV Property Inspection and any  
8 damage identified; and
- 9 • the before and after conditions of the Property when performing Property  
10 P&P actions.

11 The Mortgagee must ensure a date stamp is printed within each photograph and is  
12 labeled accordingly with a description of the contents of the photograph.

#### 13 **(4) Required Documentation**

14 The Mortgagee must:

- 15 • take before and after photographs and upload them into [P260](#) for each  
16 claimed Property P&P expense;
- 17 • upload into P260 documentation and photographs showing any damage  
18 resulting from the Borrower that is identified using the FTV Property  
19 Inspection; and
- 20 • retain in the Servicing File and the Claim File:
  - 21 ○ all copies of paid invoices or receipts or other documentation  
22 supporting all Property P&P expenses claimed by the Mortgagee; and
  - 23 ○ a chronology of the Mortgagee's Property P&P actions.

24 If documentation is incomplete, inadequate, or not provided, HUD will not accept  
25 a Mortgagee's certification of property condition and may:

- 26 • reconvey the Property to the Mortgagee; or
- 27 • seek reimbursement from the Mortgagee for HUD's estimate of the cost of  
28 the repairs required to repair and restore the Property to conveyance  
29 condition.

30 HUD requires repayment of all or part of any claim reimbursement if it is  
31 determined that expenses claimed and paid were unnecessary or excessive, or that  
32 services claimed were not performed or were performed improperly or  
33 incompletely. The Mortgagee will not be reimbursed for the costs of protecting,  
34 operating, or preserving the Property, or removing debris from the Property after  
35 the time the Property should have been conveyed to HUD ([24 CFR § 203.402\(g\)](#)).

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### (5) Property Preservation Allowances

#### (a) Definition

The Maximum Property Preservation Allowance is a pre-approved reimbursement for the aggregate of all property preservation expenses that do not exceed the line item allowances listed in HUD's [Property Preservation Allowances and Schedules](#).

#### (b) Standard

The Maximum Property Preservation Allowance is \$5,000 per Property.

The following expenses are subject to the line item allowances in HUD's [Property Preservation Allowances and Schedules](#) but are not included in the \$5,000 maximum cost limit per Property:

- debris removal;
- grass cutting;
- boarding;
- inspections;
- securing swimming pools;
- sump pumps;
- demolition;
- vacant property registration fees; and
- utilities.

#### (c) Requests for Exceeding Maximum Property Preservation Allowances

##### (i) Standard

The Mortgagee must request approval for expenses that exceed the Maximum Property Preservation Allowances from the [MCM](#) via [P260](#) when:

- the aggregate of all Property P&P expenses (excluding those not included in the \$5,000 maximum cost limit) exceeds the Maximum Property Preservation Allowance;
- a Property P&P cost will exceed the maximum line item allowance listed in the [Property Preservation Allowances and Schedules](#); or
- there is no specific line item allowance stated in the schedule for the expense.

When the Mortgagee submits an over-allowance request to exceed the Maximum Property Preservation Allowance, the Mortgagee must demonstrate their incurred P&P costs are at or near the Maximum Property Preservation Allowance.

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###### **(ii) Required Documentation**

The Mortgagee must upload all supporting documentation into [P260](#), including a detailed description of what actions will be or were taken, an itemized list of the repairs and materials that will be or were used, relevant room dimensions, receipts, photographs, and a chronological listing of all Property P&P expenses incurred before submittal of the over-allowable expense request. Requests must be submitted at least five business days prior to the conveyance due date.

The following chart details requirements for over-allowable requests.

<b>If Claimed Property Preservation Expenses are:</b>	<b>And the Cost of a Single Line Item Expense is:</b>	<b>Need Over-allowable Approval?</b>
\$5,000* or less	Greater than Appendix 7.0.A	Yes
\$5,000* or less	Equal to or less than Appendix 7.0.A	No
Greater than \$5,000*	Greater than Appendix 7.0.A	Yes
Greater than \$5,000*	Equal to or less than Appendix 7.0.A	Yes*

\*The \$5,000 maximum cost limit does not include the cost of the following expenses: debris removal, grass cutting, boarding, inspections, securing of swimming pools, sump pumps, demolition, vacant property registration fees, and utilities. These expenses do not require an over-allowable request when the cost is equal to or less than Appendix 7.0.A.

###### **(d) Appeals of Over-Allowable Request Decisions**

The Mortgagee may appeal an initial over-allowance decision via [P260](#), for review by the [MCM](#).

The Mortgagee may submit a second appeal via P260 to the MCM. The MCM reviews and approves or denies the appeal or determines if further review by HUD is needed. The decision on the second appeal is final and no further appeals are accepted.

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### (6) Property P&P Requirements of Authorities Having Jurisdiction

#### (a) Definition

An Authority Having Jurisdiction (AHJ) refers to a state or local government, HOA, or other organization responsible for enforcing the requirements of a property-related code or standard including state law and local ordinance.

#### (b) Standard

Mortgagees are not exempt by HUD policy from adhering to state and local laws relating to the P&P of Properties securing FHA-insured Mortgages.

The Mortgagee must review the AHJ requirements, including those relating to occupancy of the Structures, to determine applicability for repair or remediation prior to conveyance of the Property to HUD.

Where state or local law inhibits the Mortgagee performing HUD's required Property P&P actions, such as connecting or disconnecting utilities, the Mortgagee must submit in P260 to the [MCM](#) notice of the restriction on the Property P&P action and a proposal on how the Mortgagee will otherwise protect the Property from damage.

Where the AHJ requires additional or more extensive P&P actions than required by HUD for conveyance, the Mortgagee may submit an over-allowance request via P260. The Mortgagee must upload with its request all documentation supporting the proposed additional work requirements and expenses necessary for compliance.

#### (c) Required Documentation

Where state or local law inhibits the Mortgagee performing HUD's required Property P&P actions, the Mortgagee must note the restriction in the Servicing File and the Claim File and include a copy of the notice to the MCM, the MCM's approval or denial of the Mortgagee's proposal, and the applicable state, local, or AHJ requirement.

### (7) Securing and Maintaining the Property

#### (a) Standard

The Mortgagee must secure the Property to prevent unauthorized entry and protect against weather-related damage, and must visibly display 24-hour emergency telephone contact information in a weather-tight location on a window or door or as otherwise required by an AHJ. Securing the Property should take place as soon as reasonably practicable, but no more than five Days following the determination that the Property is vacant and/or

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1 abandoned post-foreclosure, or 15 business days following the determination  
2 that the Property is vacant and/or abandoned pre-foreclosure.

##### 3 **(i) Locksets**

4 Where the Property has been conveyed to the Mortgagee after the  
5 foreclosure sale, the Mortgagee must:

- 6 • ensure that the lockset on the main entranceway remains secured;  
7 and
- 8 • rekey or replace all locksets on all secondary external  
9 entranceways and secure interior doorways, including attached  
10 garages and basements.

11 When rekeying, the Mortgagee must reset all locksets at the Property to a  
12 random identical key code and document the key code in the  
13 “Mortgagee’s comments” of Part A of form [HUD-27011](#). If locksets  
14 cannot be replaced or rekeyed or are antique or architectural locksets, the  
15 Mortgagee may utilize alternative methods to secure the door and prevent  
16 damage to the hardware or door.

##### 17 **(ii) Exterior Doors**

18 The Mortgagee must secure all exterior doors. For exterior sliding glass  
19 doors, the Mortgagee must latch these doors and install or provide slider  
20 locks, anti-lift blocks, security bars, or another secondary security  
21 mechanism.

22 The Mortgagee must not brace, nail shut, or otherwise block or damage  
23 the door. If no other locking mechanism exists, the Mortgagee must  
24 board/secure access doors, pet doors, and other panels providing access to  
25 basements and crawl spaces, where permitted by state or local law.

##### 26 **(iii) Garage/Overhead Doors**

27 The Mortgagee must secure the garage or overhead doors by:

- 28 • using existing locksets at garage/overhead doors if they can be  
29 rekeyed to the random identical key code for the Property;
- 30 • securing the garage/overhead doors with a padlock and hasp if no  
31 other locking mechanism exists;
- 32 • repairing or replacing inoperable garage doors; and
- 33 • disconnecting automatic garage door openers, if present, and  
34 leaving any remote keys or transmitters securely in the Property.

##### 35 **(iv) Outbuildings**

36 The Mortgagee must secure sheds and outbuildings by:

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- reusing and rekeying existing locksets at sheds and outbuildings to the dwelling key code, if possible;
- securing shed and outbuilding doors with a padlock and hasp if no other locking mechanism exists; and
- boarding/securing the outbuildings if no doors or other securing mechanism exists. The Mortgagee may convey with boarded/secured outbuildings and sheds without prior approval.

##### **(v) Windows and Glazing**

The Mortgagee must secure all windows by:

- employing or installing locking mechanisms on all windows;
- removing all broken glass debris from the interior and exterior of the Property; and
- replacing broken or cracked window glazing. Where the AHJ requires replacement of dual-pane, tempered, thermal-sealed or other specialized glazing in kind, the Mortgagee must obtain prior over-allowance approval from the [MCM](#).

The Mortgagee must not brace, nail shut, or otherwise block or damage the windows.

##### **(vi) Boarding/Securing of Property Openings**

##### **Resecuring due to Vandalism or Unauthorized Property Access**

The Mortgagee must resecure and reglaze windows, doors, and other access openings when the Property has been vandalized or accessed without authorization.

##### **Boarding/Securing Required by the AHJ**

The Mortgagee may secure windows, doors, and other access openings by boarding/securing, if required by an AHJ, and may convey with such boarding/securing in place.

##### **Boarding/Securing where Unable to Secure by Other Methods**

The Mortgagee may request approval from the MCM to board/secure openings that cannot be protected by any other method or where an imminent safety hazard exists, and to convey with boarding in place.

All boarding/securing materials that are leased or rented for the Mortgagee's convenience must be removed prior to conveyance of the Property to HUD.

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1                   **(b) Roof Assembly Repair**

2                   The Mortgagee must ensure that all roof assemblies, including those securing  
3                   attached garages, porches and patios, detached garages and any secondary  
4                   structures associated with the origination collateral, and related  
5                   weatherproofing are free of active leaks or other sources of water intrusion.

6                   When a roof assembly leak is discovered, the Mortgagee must immediately  
7                   repair the roofing system and mitigate further damage. The Mortgagee may  
8                   provide such temporary repairs as tarping or patching until the permanent  
9                   repair or replacement can be installed. The Mortgagee must ensure that  
10                  permanent repairs or replacements, with materials matching or similar in color  
11                  and material type, have been completed prior to conveyance to HUD. The  
12                  Mortgagee is not required to obtain prior HUD approval for temporary repairs  
13                  for which costs do not exceed the temporary roof repair line item allowance  
14                  amount.

15                  **(c) Pools, Hot Tubs, and Spas**

16                       **(i) In-Ground Pools, Hot Tubs, and Spas**

17                   Mortgagees must secure all in-ground swimming pools, hot tubs, and spas  
18                   as required by local laws, codes, and ordinances. The Mortgagee must:

- 19                   • secure the pool, hot tub, and/or spa with a removable safety cover  
20                    anchored to the pool deck or, if a cover cannot be anchored to the  
21                    pool deck, board or otherwise secure the pool, hot tub, and/or spa;  
22                    and
- 23                   • secure and repair any fences around the pool, hot tub, and/or spa to  
24                    restrict access.

25                   The Mortgagee must not drain operational in-ground pools. If the pool is  
26                   empty, it is not necessary to refill the pool. The Mortgagee must drain hot  
27                   tubs or spas located indoors or outdoors.

28                   The Mortgagee must perform monthly maintenance and chemical  
29                   treatments for operational pools. Where the Mortgagee must repair or  
30                   drain the pool to mitigate damage or safety hazards, the Mortgagee must  
31                   submit an over-allowance request.

32                       **(ii) Above-Ground Pools**

33                   Mortgagees must secure all above-ground swimming pools as required by  
34                   local laws, codes, and ordinances. In addition to local requirements, the  
35                   Mortgagee must:

- 36                   • drain the pool;
- 37                   • secure the pool with a removable cover; and



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- secure and repair any fences around the pool in order to restrict access.

Where the above-ground pool is in poor condition or cannot be secured, the Mortgagee must:

- remove the above-ground pool and any built-up decking; and
- remediate any resulting depression in the ground that may constitute a hazard.

##### ***(iii)* Ponds or Gardens**

The Mortgagee must drain, if feasible, or cover any small backyard ponds, water gardens, or other water features.

##### **(d) Drainage Systems and Basements**

The Mortgagee must reattach, replace, repair and clear debris from existing roof drainage and foundation drainage systems. If no drainage system exists at the time of the [FTV Property Inspection](#), the Mortgagee is not required to provide or install new systems.

The Mortgagee must ensure that downspouts provide positive drainage away from the Structure and that gutters are cleared and do not prevent drainage.

If the FTV Property Inspection reveals basement flooding, the Mortgagee must drain or pump the basement, identify the water sources, and make other such repairs to prevent equipment damage, mold and organic growth, and structural and material damage.

##### **(e) Mold, Fungus, Discoloration, and Related Moisture Damage and Organic Growth**

###### ***(i)* Standard**

When mold or related moisture damage is found in the Property during the FTV Property Inspection, the Mortgagee must mitigate the source of the moisture to prevent further damage. HUD will not reimburse costs related to mold or organic growth abatement if it determines that such mold or organic growth is due to Mortgagee Neglect. The Mortgagee must thoroughly document the condition and scope of the moisture damage at the FTV Property Inspection.

###### ***(ii)* Over-Allowance Request**

The Mortgagee must submit an over-allowance request to the MCM for approval in the following circumstances:

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- 1                   • initial efforts to eliminate the mold or organic growth and to
- 2                    remove moisture are ineffective and additional treatments are
- 3                    needed to remove moisture and prevent mold and moisture
- 4                    damage; or
- 5                   • the mold or organic growth poses a potential health and safety
- 6                    hazard.

7                   Where the mold or organic growth poses a potential health or safety  
8                   hazard, the Mortgagee must provide with its request:

- 9                   • a written report and/or any lab reports or other testing data
- 10                  supporting the health or safety hazard determination;
- 11                  • photographs of the discoloration;
- 12                  • dimensions of the affected areas;
- 13                  • a description of the initial mitigation efforts, including the basis for
- 14                  the selection of the method used;
- 15                  • the proposed scope of work for the abatement; and
- 16                  • at least two bids from licensed or certified mold remediation or
- 17                  hazardous materials contractors.

##### 18                  **(f) Debris Removal, Cleaning, and Minor Repair**

19                  The Mortgagee must ensure that all interior and exterior debris is removed  
20                  from the Property, including attics, basements, barns, storage spaces, and  
21                  outbuildings, and that the Property is in Broom-swept Condition. The  
22                  Mortgagee may request reimbursement for the storage or disposition of any  
23                  Personal Property removed from the Property when such storage and  
24                  disposition is required by the AHJ.

##### 25                  **(i) Equipment, Fixtures, and Appliances**

26                  The Mortgagee must ensure that all equipment, fixtures, and appliances  
27                  present at the FTV Property Inspection and associated with origination  
28                  collateral remain in the Property, unless approved by HUD for disposal.

29                  The Mortgagee must empty and wipe clean the interior of all refrigerators  
30                  and freezers. The Mortgagee must secure exterior clothes dryer vents and  
31                  similar openings to prevent entry of pests. The Mortgagee must ensure that  
32                  bathtubs, sinks, and toilets are cleaned and emptied.

##### 33                  **(ii) Graffiti**

34                  The Mortgagee must remove or cover with similar or matching color all  
35                  exterior and interior graffiti on all Structures and fencing.

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1                                    **(iii) Exterior Debris**

2                                    The Mortgagee must ensure that the Property is free of external debris by  
3 removing all vehicles, boats, trailers, any unsafe or hazardous structures,  
4 and other Personal Property, as allowed and in accordance with state and  
5 local law requirements.

6                                    The Mortgagee may allow affixed Personal Property in sound and usable  
7 condition to remain in place that may add value to the Property, such as  
8 fountains, children’s play structures, sheds, ramadas, pergolas, or gazebos.

9                                    **(iv) Fences**

10                                  The Mortgagee must ensure that fences and gates present at the [FTV](#)  
11 [Property Inspection](#) are maintained in secure and upright condition, with  
12 no missing panels or sections.

13                                  **(v) Pests**

14                                  The Mortgagee must ensure that the Property is free of animals, vermin,  
15 and insect infestation and that any dead animals, vermin, and insects are  
16 removed from the Property.

17                                  When the Mortgagee determines the Property is infested with pests and  
18 that the infestation and removal may constitute a health or safety hazard,  
19 the Mortgagee may obtain professional pest control services; otherwise,  
20 the Mortgagee may employ over-the-counter pest control products.

21                                  When evidence of live wood boring insects is discovered, the Mortgagee  
22 must request an over-allowance for an inspection by a professional pest  
23 control service, and provide the report and treatment recommendations for  
24 over-allowance consideration to abate.

25                                  **(vi) Floors and Walkways**

26                                  The Mortgagee must ensure that interior walking surfaces are safe or  
27 otherwise patched, replaced, or repaired to be free of hazards as follows:

- 28                                  • any floor finishes, including carpeting, sheet vinyl, wood,  
29 laminate, ceramic or vinyl tiles, and all tack strips and fittings that  
30 are damaged, loose, or otherwise hazardous, must be removed. The  
31 Mortgagee is not required to replace these finishes once removed;  
32 and
- 33                                  • holes or openings in interior walking surfaces must be patched,  
34 replaced, or repaired. Weak or spongy flooring must be inspected  
35 and, if needed, repaired to address hazardous conditions with an  
36 approved over-allowance.

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1 The Mortgagee must repair damaged or missing handrails or stair treads  
2 on elevated exterior porches, patios, decks, and balconies where the  
3 distance from the finished floor to the ground surface is greater than 18  
4 inches. If repair is not feasible, the Mortgagee must provide temporary  
5 rails, fencing, or other means to prevent or mitigate falls.

##### 6 **(vii) Regulated Hazardous Materials**

7 The Mortgagee must handle and dispose of hazardous materials regulated  
8 by federal, state, or local law in accordance with those laws.

9 Where removal of hazardous materials exceeds HUD's reimbursable  
10 amounts for debris removal, the Mortgagee must submit an over-  
11 allowance request prior to incurring those costs. The Mortgagee must  
12 include with the request:

- 13 • the relevant code or regulation describing the specific handling or  
14 disposal requirements;
- 15 • if testing is required to confirm the presence of hazardous  
16 materials, detailed reports or test results, with information on the  
17 location of the materials, the scope of the work, and recommended  
18 methods for removal, abatement or remediation of the materials;  
19 and
- 20 • at least two bids from licensed or certified hazardous materials  
21 contractors.

##### 22 **(8) Yard Maintenance and Snow Removal**

###### 23 **(a) Definitions**

24 Grass Cuts are the Property P&P actions of mowing, weeding, edge trimming,  
25 sweeping of all paved areas, and removing all lawn clippings, related cuttings,  
26 and debris.

###### 27 **(b) Standard**

28 The Mortgagee is responsible for maintaining lawn and yard areas and trees,  
29 shrubs, and vines in compliance with AHJ requirements by performing Grass  
30 Cuts.

31 The Mortgagee must ensure that yards are maintained as follows:

- 32 • Grass must be cut to a maximum of two inches in height.
- 33 • Grass and weeds must be cut to the edge of the property line, and  
34 trimmed around foundations, bushes, trees, and planting beds.
- 35 • Grass, trees, tree limbs, shrubs, and other vegetation that are  
36 obstructing the public right of way must be trimmed or removed.

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- 1 • Desert, xeriscape, or rock scape landscaping maintenance must be
- 2 maintained through removal or spraying of weeds, grass trimming or
- 3 cutting, and the removal of related cuttings and incidental debris.
- 4 • Dead trees or tree limbs that pose a safety hazard or may potentially
- 5 damage the Property must be removed or trimmed.

#### 6 (c) Grass Cuts

##### 7 (i) Standard

8 The Mortgagee must complete initial and ongoing Grass Cuts and desert  
9 landscaping according to the timelines set in the [Grass Cut Schedule](#).

10 Should a Property require earlier or more frequent Grass Cuts or desert  
11 landscaping maintenance due to specific micro-climate conditions or other  
12 property requirements, the Mortgagee must perform such cuts or  
13 landscaping.

14 If additional or more frequent Grass Cuts are required as a result of code  
15 violations or neighbor complaints, the Mortgagee must submit to the  
16 [MCM](#) a request to exceed the allowable amount and documentation  
17 supporting the amended timeline.

##### 18 (ii) Required Documentation

19 Should a Property require earlier or more frequent Grass Cuts or desert  
20 landscaping maintenance due to specific micro-climate conditions or other  
21 property requirements, or if additional or more frequent Grass Cuts are  
22 required as a result of code violations or neighbor complaints, the  
23 Mortgagee must include in the Servicing File and the Claim File  
24 documentation supporting the Mortgagee's amended timeline.

#### 25 (d) Shrubs

26 The Mortgagee must trim shrubs and remove cuttings once in a growing  
27 season, between April 1 and October 31.

#### 28 (e) Snow Removal

29 The Mortgagee must ensure that the Property is safe and accessible  
30 throughout the winter season by:

- 31 • removing snow from the entire entryway, public and other front yard
- 32 walkways, porch, and driveway, following a minimum three-inch
- 33 accumulation; and
- 34 • complying with local codes and ordinances governing the removal of
- 35 snow and ice.

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1                                   **(f) HOA Yard Maintenance**

2                                   If an HOA or Condominium Association provides for the yard maintenance  
3                                   and snow removal actions, the Mortgagee must not order duplicate yard  
4                                   maintenance and snow removal actions.

5                                   **(9) Winterization Requirements**

6                                   **(a) Time Frame for Winterization**

7                                   The Mortgagee must winterize the Property once, according to the  
8                                   [Winterization Schedule](#). All Properties located in the state of Alaska must  
9                                   remain winterized at all times.

10                                  Where earlier or extended winterization is required due to specific micro-  
11                                  climate conditions or other property requirements, the Mortgagee must  
12                                  perform such winterization and include in the Servicing File and the Claim  
13                                  File documentation supporting the Mortgagee's amended winterization  
14                                  timeline.

15                                  Where the initial winterization is no longer effective, the Mortgagee must re-  
16                                  winterize the Property and include in the Servicing File and the Claim File  
17                                  documentation demonstrating the need to re-winterize.

18                                  **(b) Utilities**

19                                    **(i) Standard**

20                                    The Mortgagee must turn all utilities off unless:

- 21                                    • prohibited by state or local law;
- 22                                    • required to remain on per HOA or Condominium Association  
23                                    requirements;
- 24                                    • the Property is an attached unit or a dwelling with shared systems  
25                                    such as a row house, townhouse or Condominium;
- 26                                    • required to remain on to protect the Property;
- 27                                    • required to operate equipment such as sump pumps, swimming  
28                                    pools, wells, dehumidifiers, or other equipment or systems  
29                                    required to remain in operation; or
- 30                                    • where the Mortgagee determines that utility disconnection fees and  
31                                    charges make it cost effective to maintain utility service rather than  
32                                    disconnect the service.

33                                    The Mortgagee must ensure that active piping and exposed electrical  
34                                    wiring is capped, valved, or otherwise terminated.

35                                    If utilities remain on, the Mortgagee must note in the Servicing File and  
36                                    the Claim File the reasons for maintaining utility service and, if

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1 applicable, include a copy of the state or local requirement for maintaining  
2 utility service.

##### 3 ***(ii) Sump Pumps***

4 The Mortgagee must ensure that all installed or required sump pumps are  
5 in place and operational at all times, where state or local law permits  
6 electricity to remain on. The Mortgagee must repair or replace any non-  
7 functioning or missing equipment.

##### 8 ***(iii) Utility Accounts***

9 The Mortgagee must retain all utility accounts in its name until  
10 conveyance of the Property to HUD.

11 In states or jurisdictions where utilities should remain on, if there is any  
12 reason to believe that a Borrower may abandon a Property, the Mortgagee  
13 must contact the utility company to request notification of non-payment of  
14 utilities so that utilities can be transferred to the Mortgagee's name if the  
15 Borrower vacates the Property.

##### 16 ***(iv) Propane and Oil Systems***

17 In jurisdictions requiring heat to remain on, the Mortgagee must put a  
18 "KEEP FULL" contract on with a local supplier when the Property has a  
19 propane or oil heating system. Otherwise, the Mortgagee must ensure that  
20 active piping is capped, valved, or otherwise terminated and all fuel tanks  
21 are emptied.

##### 22 ***(v) Domestic Water***

23 The Mortgagee must not cut water lines or remove water meters, unless  
24 required by the AHJ.

##### 25 ***(vi) Wells***

26 If the water supply is a private well, the Mortgagee must:

- 27 • turn off the well at the breaker panel;
- 28 • secure the breaker;
- 29 • disconnect and cap, valve, or otherwise terminate the water supply  
30 line between the Property and pressure tank;
- 31 • install a hose bib on the pressure tank side of the breaker, tagging  
32 the hose bib "For Water Testing;"
- 33 • drain all pressure tanks;
- 34 • drain pump housing if the pump is surface-mounted;

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- disconnect the check valve and drain all pump, suction, and discharge pipes, if the pump is submersible; and
- winterize all fixtures.

#### **(vii) Water, Plumbing, and Heating Systems**

The Mortgagee must:

- shut off or disconnect the domestic water supply at the curb;
- drain all plumbing and heating systems; and
- ensure that all toilets are cleaned and emptied.

Where a toilet or other plumbing fixture has been compromised by an unauthorized entry or wastewater backflow, the Mortgagee must complete re-winterization and cleaning.

#### **(c) Winterization of Swimming Pools**

During the winterization period, the Mortgagee must drain all lines and filters and secure and maintain operational swimming pools to prevent damage.

#### **(d) Additional Winterization Requirements for Properties Located in Alaska**

In addition to the winterization requirements described above, the Mortgagee must ensure that for all Properties located in the state of Alaska:

- the heat remains on, with the thermostat set at 55 degrees Fahrenheit; and
- all utilities remain connected and in working order, where permitted by state or local law.

#### **(e) Responsibility for Damage Due to Freezing**

The Mortgagee is responsible for any damage to plumbing and heating systems, sump pumps, and wells caused by untimely, inadequate, or improper maintenance or winterization.

HUD considers any damage caused by freezing and not documented at the FTV Property Inspection to be the responsibility of the Mortgagee and not reimbursable by HUD.

### **(10) Demolition**

If the Mortgagee proposes to demolish or remove a primary dwelling structure, a significant section of the Structure, or a secondary structure that is associated with the origination collateral, the Mortgagee must request approval from the MCM to demolish and convey as a vacant lot. The Mortgagee is not required to request HUD approval to demolish damaged or unusable sheds and outbuildings that were



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1 not included in the Property Value at origination. For requests to demolish a  
2 primary dwelling structure, the Mortgagee must submit to the MCM:

- 3 • a BPO analysis estimating the value of the Property “As-Is” and as a  
4 vacant lot;
- 5 • proposed demolition costs; and
- 6 • a detailed chronology of the servicing and Property P&P actions related to  
7 the Property, including all efforts to address any damages or violations.

8 Where a local jurisdiction mandates demolition of a Property after foreclosure, the  
9 Mortgagee must provide the following to the MCM immediately upon discovery  
10 of the demolition order:

- 11 • copies of all notices pertaining to demolition orders and hearings; and
- 12 • [inspection reports and photographic documentation](#) establishing the  
13 condition of the Property when the Mortgagee first entered or took  
14 possession of the Property.

15 The MCM advises the Mortgagee as to whether to proceed with the demolition or  
16 to postpone the demolition until after conveyance to HUD.

##### 17 (a) Requests Less than Five Business Days before Conveyance

18 The MCM rejects any requests received less than five business days before the  
19 end of the time frame to convey to HUD, unless the Mortgagee can  
20 demonstrate that it received the demolition notification with insufficient time  
21 to make a request by this deadline.

##### 22 (b) Cost of Demolition

23 The cost of demolition is not included in the maximum cost limit per Property.

##### 24 (c) Damage due to Mortgagee Neglect

25 If HUD determines that the damage to the Property is due to Mortgagee  
26 Neglect, the Mortgagee is responsible for the cost to demolish the Property.  
27 The MCM determines the acceptance of the vacant lot.

#### 28 (C) Conveyance of Damaged Properties

##### 29 (1) Conveyance without Prior HUD Approval

30 The Mortgagee may convey Properties without prior written approval when:

- 31 • the Property is in conveyance condition, with no Surchargeable Damage;  
32 and
- 33 • the aggregate of all allowable Property P&P expenses does not exceed the  
34 Maximum Property Preservation Allowance and claimed P&P costs do not  
35 exceed the [Property Preservation Allowances](#) line item.

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### 1 (2) Conveyance Requiring HUD Approval

#### 2 (a) Request to HUD

3 The Mortgagee must request and obtain approval from the MCM before  
4 conveyance under any of the following circumstances:

- 5 • conveyance of a Property damaged while under the control of the  
6 Mortgagee or as a result of Mortgagee Neglect;
- 7 • conveyance of a Property with unrepaired insurable damage and  
8 insurance repair proceeds;
- 9 • conveyance of a Property “As-Is” with unfinished renovations,  
10 violations, liens, or other outstanding state law and local code  
11 compliance issues; and
- 12 • demolition and/or conveyance of a vacant lot.

#### 13 (b) Required Documentation for Request

14 In its request to convey the damaged Property, the Mortgagee must include  
15 the following documentation:

- 16 • the date of vacancy;
- 17 • evidence validating the property condition at vacancy;
- 18 • supporting documentation including inspection reports, photographs,  
19 repair bids, and receipts;
- 20 • a chronology of actions performed by the Mortgagee to preserve and  
21 protect the Property;
- 22 • for damaged Properties with approval to convey with insurance  
23 proceeds, all related damage reimbursement funding, including  
24 insurance deductibles, recoverables, and depreciation; and
- 25 • for Properties with unfinished renovations, violations, liens, or other  
26 outstanding state and local law compliance issues:
  - 27 ○ the BPO showing the value of the Property “As-Is” and the value  
28 with repairs completed;
  - 29 ○ copies of violations, liens, or relevant state or local law;
  - 30 ○ hazard insurance claim information, including hazard insurance  
31 denials;
  - 32 ○ a detailed description of the reason(s) that the Mortgagee cannot  
33 feasibly repair or secure the Property, proposed actions or actions  
34 taken, and a detailed repair estimate of the damages; and
  - 35 ○ a detailed estimate of cost to repair the Property.

36 If no documentation or inadequate documentation is received from the  
37 Mortgagee, HUD attributes all damage to the Mortgagee.

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#### (3) Mortgagee Failure to Obtain Required HUD Approval

If the Mortgagee fails to obtain HUD approval when required, prior to conveying a damaged Property, HUD may:

- reconvey the Property;
- require a reduction to the claim for insurance benefits:
  - the hazard insurance recovery or HUD's estimate of the cost of repairing damage; or
  - the cost to repair and restore the Property to required conveyance condition; or
- take other such action as permitted by regulation.

#### (4) Appeal of Surchargeable Damage Decision

The Mortgagee may appeal a Surchargeable Damage request decision via P260. The Mortgagee may submit an additional appeal to HUD via P260. The second appeal decision is final and no further appeals are accepted.

#### (D) Hazard Insurance Recovery

The Mortgagee must take all appropriate action to recoup all available hazard insurance proceeds, including recoverable depreciation.

##### (1) Extension of Time to Convey Title to HUD

Where conveyance of title to HUD jeopardizes the Mortgagee's ability to receive hazard insurance proceeds, the Mortgagee must request an extension of time from the [MCM](#), providing a specific reason why the extension is warranted.

##### (2) Reimbursement for Recoverable Depreciation

The Mortgagee must seek reimbursement for any recoverable depreciation after repairs have been completed; all damages must be repaired prior to conveyance.

##### (3) Recovery for Vandalism or Theft

###### (a) Standard

If there is evidence of vandalism or theft resulting in damage or missing built-in appliances, equipment, or fixtures, the Mortgagee must file a claim to obtain all available insurance proceeds for damages to the Property.

Unless the Mortgagee obtains [HUD approval to convey](#) with unrepaired insurable damage and insurance repair proceeds, the Mortgagee must use these insurance proceeds or corporate funds to fully repair or replace the damaged structures, appliances, equipment, or fixtures.

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1                                   **(b) Required Documentation**

2                                   The Mortgagee must document in the Servicing File and the Claim File all  
3                                   relevant claim correspondence with the insurance company.

4                                   **(E) Requests for Pre-Conveyance Inspection**

5                                   **(1) Definition**

6                                   A Pre-Conveyance Inspection is an inspection performed by HUD, at the  
7                                   Mortgagee's request, before conveyance to determine if a Property meets HUD's  
8                                   conveyance standards.

9                                   **(2) Standard**

10                                  The Mortgagee may request a Pre-Conveyance Inspection of a Property that has  
11                                  sustained damage due to Borrower neglect, Surchargeable Damage, or Mortgagee  
12                                  Neglect.

13                                  **(3) Submission of Pre-Conveyance Inspection Request**

14                                  The Mortgagee may submit a request for a Pre-Conveyance Inspection to the  
15                                  [MCM](#) before the deed to HUD is recorded or sent for recording, and before the  
16                                  submittal of a claim.

17                                  **(4) HUD Review of Request**

18                                  The MCM reviews the request to determine whether a Pre-Conveyance Inspection  
19                                  is needed and may consider the following criteria in its decision:

- 20                                  • the Property has completed over-allowance repairs exceeding \$10,000;
- 21                                  • the Property is affected by re-occurring vandalism and the Mortgagee is  
22                                  requesting approval to convey the Property "As-Is" to HUD;
- 23                                  • the Property has code violations and the Mortgagee is requesting approval  
24                                  to convey the Property "As-Is" to HUD;
- 25                                  • the Property is located in a PDMDA and has completed repairs exceeding  
26                                  \$10,000;
- 27                                  • the Property has an insurable claim with completed repairs exceeding  
28                                  \$5,000;
- 29                                  • the Property has unrepaired Borrower neglect damage affecting  
30                                  mechanical, electrical, plumbing, or structural system integrity; and
- 31                                  • the Property has uninsurable and unfinished renovations, and the  
32                                  Mortgagee is requesting approval to convey the Property "As-Is" to HUD.

33                                  **(5) Pre-Conveyance Inspection**

34                                  If the request for the Pre-Conveyance Inspection is approved, the MCM orders the  
35                                  Pre-Conveyance Inspection from HUD's Field Service Manager (FSM), who

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1 contacts the Mortgagee to coordinate the inspection. Upon completion of the  
2 inspection, the FSM provides an inspection report indicating:

- 3 • whether the Property is in conveyance condition; or
- 4 • further actions the Mortgagee must take to place the Property into
- 5 Acceptable Conveyance Condition.

6 The Mortgagee must ensure that all required actions identified on the Pre-  
7 Conveyance Inspection report are completed before conveyance to HUD.

#### 8 iv. Condition of Title

9 The Mortgagee must convey good and marketable title to the Secretary.

10 HUD regulations list certain specific and common exceptions to title in [24 CFR](#)  
11 [§§ 203.385–203.391](#) to which HUD will not object. HUD may waive additional  
12 objections, based on local practice and the general marketability of title clouded by those  
13 objections, or if the Mortgagee is willing to accept a reduced claim for mortgage  
14 insurance benefits.

#### 15 (A) Liens

16 HUD will not accept title subject to liens, other than the following:

- 17 • IRS liens;
- 18 • Section 235 liens; and
- 19 • a PACE obligation.

#### 20 (1) IRS Liens

21 HUD will not object to title where there is a lien in favor of the IRS, regardless of  
22 its position, if the following conditions are met:

- 23 • the IRS has been notified of the foreclosure;
- 24 • the IRS lien was established after the date of the mortgage lien; and
- 25 • the Mortgagee bid at least the full amount of the indebtedness plus the cost  
26 of foreclosure.

#### 27 (2) Section 235 Liens

28 HUD will accept title subject to a junior lien securing the repayment of Section  
29 235 assistance payments.

#### 30 (3) Property Assessed Clean Energy Obligation

31 HUD will allow a notice of lien recorded in the land records securing repayment  
32 of a PACE obligation that may only become subject to an enforceable claim (i.e.,  
33 a lien) for delinquent regularly scheduled PACE special assessment payments and  
34 otherwise complies with the eligibility and acceptability criteria for Properties  
35 encumbered with a PACE obligation provided in [PACE Obligation Review](#).

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### 1 (B) Payment of Taxes

#### 2 (1) Taxes at Conveyance

##### 3 (a) Standard

4 Prior to the conveyance of a Property to HUD, the Mortgagee must satisfy all  
5 taxes and special assessments, including any PACE assessments:

- 6 • due and payable prior to or on the date of conveyance; or
- 7 • due and payable within 30 Days after the date of conveyance.

##### 8 (b) Required Documentation

9 The Mortgagee must:

- 10 • certify that all available tax and assessment bills due at conveyance  
11 and within 30 Days of conveyance are paid as of the date of  
12 conveyance;
- 13 • document payment and identify the most recent period for which taxes  
14 were paid in Item 32, “Schedule of Tax Information,” of form [HUD-](#)  
15 [27011](#), Part A; and
- 16 • upload to [P260](#) documentation validating that on-time payment was  
17 made, such as a paid receipt, a copy of the Mortgagee’s tax payment  
18 history screen, or a report, or screenshot of a report, from a tax  
19 monitoring service.

20 The Mortgagee must also retain invoices, paid bill receipts, or other proof of  
21 payment in the Servicing File and the Claim File.

#### 22 (2) Tax Penalties

23 When late fees and/or interest penalties are incurred as a result of the Mortgagee’s  
24 failure to pay taxes prior to conveyance, HUD will not reimburse the Mortgagee  
25 for late fees and/or interest penalties paid by the Mortgagee, and the Mortgagee  
26 must reimburse HUD for any late fees and/or interest penalties paid by HUD.

#### 27 (3) Mortgagee Failure to Pay Taxes, Late Fees, and/or Interest Penalties

28 Where taxes, late fees and/or interest penalties are owed to the taxing authority  
29 when a Property is conveyed to HUD, HUD may elect to:

- 30 • Reconvey the Property back to the Mortgagee; or
- 31 • refuse to accept the conveyance.

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### (C) Payment of HOA/Condominium Fees

#### (1) Definitions

A Homeowners' Association (HOA)/Condominium Assessment is a periodic payment required of property owners by an HOA or Condominium Association.

HOA/Condominium Fees are HOA/Condominium Assessments plus interest, Late Charges, collection/attorney fees, and other penalties.

#### (2) Standard

Prior to the conveyance of a Property to HUD, the Mortgagee must pay HOA/Condominium Fees that are due and that become due within 30 Days of the date of conveyance. While the payment of HOA/Condominium Fees is the Borrower's responsibility, Mortgagees must ensure that Properties conveyed to HUD have clear title.

The Mortgagee must take the following actions:

- provide notice of foreclosure proceedings to HOA/condominium management companies;
- unless prohibited by state law, ensure that outstanding HOA/Condominium Fees are included as part of the foreclosure proceedings in the event the HOA/condominium management company does not pursue these amounts in foreclosure;
- negotiate the amount required to obtain a release of outstanding HOA/Condominium Fees;
- obtain a release of outstanding HOA/Condominium Fees;
- ensure that the HOA/condominium lien, if any, is removed from the title to the Property prior to conveying the Property to HUD; and
- pay the HOA/Condominium Assessment required under applicable law before conveyance to HUD, where HOA/Condominium Fees do not survive foreclosure or result in a lien on the Property.

#### (3) Required Documentation

The Mortgagee must document the payment of all final bills and pre- and post-foreclosure liens for HOA/Condominium Fees in the "Mortgagee's Comments" section of form [HUD-27011](#), Part A.

Within 15 Days of conveyance, the Mortgagee must upload to [P260](#) the paid HOA/condominium invoice and any other documentation necessary to verify that the Mortgagee made such payments prior to conveyance, and, if applicable, document any common area requirements associated with gaining access to the Property.

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#### (4) Lack of Information on HOA or Condominium Association Assessments and Fees

##### (a) Standard

On a case-by-case-basis, at its sole discretion, HUD may accept conveyances where the Mortgagee has requested and has been unable to obtain sufficient information on HOA/Condominium Fees to resolve them prior to conveyance.

##### (b) Required Documentation

The Mortgagee must request a variance through HUD's MCM by submitting:

- a certification stating that the Mortgagee has exhausted all methods of obtaining and paying the outstanding HOA/Condominium Assessments; and
- evidence documenting its attempts to obtain and pay these assessments and fees as follows:
  - at least three phone calls;
  - certified mail notices to HOA/condominium contacts from the Mortgagee's attorneys; and
  - documentation validating the pursuit of available legal remedies and evidencing the resolution or final decisions resulting from arbitration or court proceedings.

#### (D) Payment of Water and Sewer Bills and Other Assessments

##### (1) Standard

The Mortgagee must retain utilities, including electricity, gas, home heating oil, water, and sewer, in its name until conveyance of the Property to HUD.

Prior to the conveyance of a Property to HUD, Mortgagees must research, obtain, and pay all available utility bills that may become a lien attached to a Property after foreclosure as follows:

- In states where utilities are not required to remain on to protect the Property, Mortgagees must obtain and pay a final bill up to the date of conveyance; and
- In states where utilities are required to remain on, Mortgagees must pay:
  - all available bills that are due prior to conveyance; and
  - within 60 Days after the date of conveyance, the final bill calculated to the Day on which utilities are transferred to HUD.

##### (2) Required Documentation

For Properties in states where utilities are not required to remain on to protect the Property, no later than 60 Days after conveyance, the Mortgagee must upload to



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1 [P260](#) the paid invoice and any other documentation necessary to verify that the  
2 Mortgagee made such payments.

3 For Properties in states where utilities are required to remain on, the Mortgagee  
4 must upload to [P260](#) the paid invoices and any other documentation necessary to  
5 verify that the Mortgagee made the payment for the final bill.

#### 6 **(3) Failure to Pay Utility Bills**

7 If the Mortgagee fails to pay utility bills, HUD, at its sole discretion, may:

- 8 • issue a Notice of Noncompliance and demand payment from the  
9 Mortgagee in an amount that sufficiently satisfies any liens or  
10 encumbrances, including penalties and interest, which prevent or delay a  
11 sale; or
- 12 • Reconvey the Property to the Mortgagee.

#### 13 **v. Notice of Property Transfer**

14 The Mortgagee must notify the Commissioner on the date the deed to the Secretary is  
15 filed for recording by:

- 16 • filing form HUD-27011 in [FHAC](#); and
- 17 • submitting a copy to HUD's [MCM](#).

18 The Mortgagee must prepare conveyance deeds to the Secretary of HUD. Deeds must be  
19 recorded in the name of the "Secretary of Housing and Urban Development, their  
20 successors and assigns," hereinafter referred to as "Grantee," whose address is HUD's  
21 [MCM](#).

#### 22 **vi. Submission of Title Evidence for Conveyance to HUD**

##### 23 **(A) Submission of Title Evidence to the Mortgagee Compliance Manager**

#### 24 **(1) Standard**

25 The Mortgagee must submit to HUD's [MCM](#) via [P260](#) the following  
26 documentation reflecting ownership vested in the name of the Secretary no more  
27 than 45 Days after the date the deed is filed for record:

- 28 • original title evidence;
- 29 • a copy of form [HUD-27011](#), Part A;
- 30 • a copy of the mortgage instrument, containing a complete legal description  
31 of the Property; and
- 32 • a copy of the recorded deed.

#### 33 **(2) Extension to the Deadline to Submit Title Evidence**

34 To request an extension to the deadline to submit title evidence, the Mortgagee  
35 must:

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- 1                   • submit a request for an extension via [P260](#) before the expiration of the 45-  
2                   Day time frame; and  
3                   • provide documentation supporting the reason for the request.

#### 4                   **(B) Title Evidence**

5                   The Mortgagee must provide one of the following types of title evidence of recorded  
6                   title to the Secretary. The Mortgagee may also submit similar evidence of title that  
7                   conforms to the standards of a supervising branch of the federal, state, or territory  
8                   government.

#### 9                   **(1) Fee or Owner’s Title Policy**

10                  The Mortgagee may submit:

- 11                  • a fee or owner’s policy of title insurance in the name of the Secretary,  
12                  insuring the benefit of the Secretary’s successors in office;  
13                  • a guaranty or guarantee of title; or  
14                  • a certificate of title, issued by a title company, duly authorized by law and  
15                  qualified by experience to issue such instruments.

16                  When the Mortgagee submits a title policy as evidence of good and marketable  
17                  title, the amount of title insurance coverage must be equal to the unpaid principal  
18                  balance of the Mortgage.

19                  The Mortgagee must upload to [P260](#) and include in its original title evidence  
20                  package a copy of the appraisal used to determine the CAFMV when:

- 21                  • the Mortgagee is the successful bidder for an amount equal to the CAFMV  
22                  for sales conducted under CWCOT procedures; and  
23                  • the Mortgagee elects to convey the Property’s title to HUD.

#### 24                  **(2) Mortgagee Policy of Title Insurance**

25                  The Mortgagee may submit a Mortgagee’s policy of title insurance supplemented  
26                  by an abstract and an attorney’s certificate of title covering the period after the  
27                  Closing Date. The Mortgagee must ensure that, under the terms of the policy, the  
28                  liability of the title company will continue in favor of the Secretary after title is  
29                  conveyed to them.

#### 30                  **(3) Abstract and Legal Opinion**

31                  The Mortgagee may submit:

- 32                  • an abstract of title, prepared by an abstract company or individual engaged  
33                  in the business of preparing abstracts of title; and  
34                  • a legal opinion as to the quality of the title. The Mortgagee must ensure  
35                  that this legal opinion is prepared and signed by an attorney experienced in  
36                  examination of titles.

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#### (4) A Torrens or Similar Title Certificate

The Mortgagee may submit a Torrens or similar title certificate.

#### (C) Title Evidence for Manufactured Housing

##### (1) Standard

For Manufactured Housing, the Mortgagee must include title evidence that:

- the Manufactured Home is attached to the land; and
- the Manufactured Home is classified and taxed as real estate.

The Mortgagee must ensure that all state or local requirements for proper purging of the title have been met.

##### (2) Required Documentation

The Mortgagee must:

- upload the title evidence into [P260](#) on or before the filing date of form [HUD-27011](#), Part A; and
- certify in the “Mortgagee’s Comments” section of form HUD-27011, Part A, that the required additional title work has been completed and uploaded.

#### (D) HUD Review of Title Evidence

The MCM will review the title evidence and notify the Mortgagee of its approval or denial or if additional information is needed.

#### (E) HUD Requests for Additional Title Information

If HUD requests additional title information, the Mortgagee must provide this information within 10 Days of the request to avoid rejection of the title evidence.

If title evidence is later approved after the submission of additional information, HUD will provide the Mortgagee with a title approval letter showing the “Date Title Received” as the date the Mortgagee resubmitted the complete title evidence.

#### vii. Responsibility for Property at Conveyance

The Mortgagee is responsible for the Property until all HUD regulatory requirements leading to conveyance have been complied with, including:

- filing to record the deed to the Secretary of HUD; and
- filing form HUD-27011 in [FHAC](#) for claim processing and payment.

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1 The Mortgagee remains responsible for the Property and any loss or damage thereto  
2 should the claim be suspended due to the need for review or correction of a hard edit  
3 error, notwithstanding the filing of the deed to the Secretary.

#### 4 (A) Damage at Inspection at or after Conveyance

5 HUD will presume that any damage discovered during HUD's first inspection of the  
6 Property after conveyance occurred while the Mortgagee had possession, unless the  
7 Mortgagee is able to provide evidence to the contrary.

#### 8 (B) Expenses Incurred at or after Conveyance

9 Without the express written approval of the MCM, the Mortgagee must not incur  
10 expenses for P&P of the Property or for eviction of the occupant on or after the date  
11 the deed is filed for record.

12 HUD will not reimburse P&P or property-related expenses incurred after the deed has  
13 been recorded in HUD's name, other than payment of certain utility bills or HOA  
14 payments.

#### 15 (C) Cancellation of Hazard Insurance

16 The Mortgagee must request Hazard Insurance be canceled as of the date the deed is  
17 filed for record. The Mortgagee may calculate the amount of the return premium due  
18 on a short-rate basis.

### 19 viii. Extension of Time for Conveyance

#### 20 (A) Standard

21 To request an extension to the deadline to convey the Property to HUD, the  
22 Mortgagee must:

- 23 • submit a request for an extension via [P260](#) before the expiration of the time  
24 frame; and
- 25 • provide documentation supporting the reason for the request.

#### 26 (B) Required Documentation

27 The Mortgagee must maintain a copy of the written response from the HUD  
28 representative in the Mortgagee's Servicing File and Claim File.

#### 29 (C) Appeal of Extension Decision

30 The Mortgagee may appeal a decision on a request for an extension via P260 for  
31 review by the MCM. The Mortgagee may submit a second appeal via P260. The  
32 MCM will review and approve or deny the appeal or determine if further review by

### III. SERVICING AND LOSS MITIGATION

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1 HUD is needed. The decision on the second appeal is final and no further appeals will  
2 be accepted.

#### 3 ix. HUD Acceptance of Conveyance

4 HUD considers a Property conveyed by the Mortgagee to HUD when:

- 5 • the Mortgagee has deeded the Property to HUD; and
- 6 • HUD accepts conveyance of the Property, as evidenced by the payment of Part A  
7 of the claim from HUD to the Mortgagee; or
- 8 • For [suspended claims](#), notwithstanding the filing of the deed to the Secretary for  
9 record, the Mortgagee remains responsible for the Property, and any loss or  
10 damage thereto, and such responsibility is retained by the Mortgagee until HUD  
11 regulations have been fully complied with.

#### 12 x. Reconveyance

##### 13 (A) Definition

14 A Reconveyance is a conveyance of a Property from HUD back to the Mortgagee due  
15 to the Mortgagee's failure to comply with HUD's conveyance requirements.

##### 16 (B) Standard

17 If a Mortgagee fails to fully comply with the terms of the insurance contract,  
18 including HUD's conveyance requirements, HUD may:

- 19 • Reconvey title to the Mortgagee; and
  - 20 ○ cancel the Mortgagee's [claim for insurance benefits](#); and
  - 21 ○ request reimbursement for expenses incurred for acquisition, holding and  
22 Reconveyance, less any income received from the Property, from the date  
23 the deed to HUD was filed for record to the date of Reconveyance; or
- 24 • enter into a Reconveyance Bypass Agreement with the Mortgagee.

25 The Mortgagee may re-apply for insurance benefits.

#### 26 t. Non-conveyance Foreclosure (03/31/2022)

27 The Mortgagee may elect not to convey the Property to HUD after foreclosure and to  
28 terminate the contract of mortgage insurance. The Property may be acquired by the  
29 Mortgagee or by a third party at a foreclosure sale, or may be redeemed after foreclosure and  
30 no insurance claim will be made to HUD.

31 For non-conveyance foreclosures, the Mortgagee must use form HUD-27050-A and select  
32 Non-Conveyance Foreclosure (Term Type 13) in FHAC to notify HUD.

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#### u. Deficiency Judgments (03/31/2022)

Where the mortgaged Property is sold at the foreclosure sale for less than the unpaid balance of the debt, HUD may seek a deficiency Judgment, unless prohibited by the terms of the Mortgage.

##### i. HUD-Required Deficiency Judgments

###### (A) Mortgages Insured on or after March 28, 1988

For Mortgages insured pursuant to *Firm Commitments* issued on or after March 28, 1988, or pursuant to direct endorsement processing when the Mortgagee's underwriter signed the credit worksheet on or after March 28, 1988, HUD may require the Mortgagee to pursue a deficiency Judgment. Where HUD requires the Mortgagee to pursue a deficiency Judgment, HUD will provide the Mortgagee with instructions and its estimate of the FMV of the Property, less adjustments. Upon receipt of such notification, the Mortgagee must:

- tender a bid at the foreclosure sale in that amount; and
- attempt, in accordance with state law, to obtain a deficiency Judgment.

###### (B) Mortgages Insured before March 28, 1988

For Mortgages insured pursuant to *Firm Commitments* issued before March 28, 1988, or pursuant to direct endorsement processing when the Mortgagee's underwriter signed the credit worksheet before March 28, 1988, HUD may request the Mortgagee to pursue a deficiency Judgment.

##### ii. Procedures for Claims Without Conveyance of Title

Unless specifically requested by FHA, the Mortgagee is not required by FHA to pursue any deficiency Judgments in connection with [CWCOT procedures](#).

##### iii. Assignment of Judgments

###### (A) When Filing a Claim for Insurance Benefits

The Mortgagee must assign deficiency Judgments to HUD and transmit the Judgment to **HUD** no later than 30 Days after the Judgment was obtained if the Mortgagee filed a claim for mortgage insurance benefits.

###### (B) When Not Filing a Claim for Insurance Benefits

The Mortgagee may engage in Judgment collection activities if a claim for FHA insurance benefits is not filed.

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#### 3. Programs and Products

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### 1 3. Programs and Products

2 [This section remains unchanged.]

### 3 4. Single Family Default Monitoring System Default Reporting and Non-Incentivized 4 Loan Modification Report

#### 5 a. Single Family Default Monitoring System Default Reporting

##### 6 i. Definition

7 **The** Single Family Default Monitoring System (SFDMS) is HUD's system for tracking  
8 Mortgagee data on Defaulted Mortgages until a Default is resolved through reinstatement  
9 or termination.

##### 10 ii. Standard

11 The Mortgagee must report the [Delinquency/Default Status \(DDS\) Codes](#) that accurately  
12 reflect the severity of Default and Mortgagee actions taken in SFDMS.

#### 13 (A) Types of Mortgages to Report (01/01/2025)

14 Each month, the Mortgagee must report **all reportable** Default servicing activities for  
15 all Mortgages that are 30, 60, and 90 Days or more in Default and all Mortgages in a  
16 Payment Supplement Period, as of the last Day of the month.

17 The Mortgagee must report the status of four classes of Mortgages each month:

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

#### 29 (B) Time Frame for Reporting

30 For every case for which reporting is required, the Mortgagee must submit **Default**  
31 data documenting the status as of the end of the month by the fifth business day of the  
32 following month. **In addition**, Mortgagees may also submit **Default** data throughout  
33 the month.

### III. SERVICING AND LOSS MITIGATION

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##### (C) Reporting Accuracy

The Mortgagee must submit a complete and accurate SFDMS report. If the Mortgagee submits incomplete or inaccurate data, SFDMS may automatically reject the report for that Mortgagee or the Mortgagee's entire monthly report.

##### (D) Quality Control

A Mortgagee's Quality Control Plan must ensure that:

- the reporting staff is properly trained;
- servicing and foreclosure staff are aware of reporting requirements and of cases reported; and
- report format and content are checked for errors by trained staff, whether it is prepared manually or by an automated system.

##### (E) Error Reports and Correction (03/01/2022)

The Mortgagee may receive Error Reports from two systems:

- [Electronic Data Interchange \(EDI\)](#), which provides the All Transaction Sets 824 (TS 824) Report (see the [Electronic Data Interchange Implementation Guide](#) for additional information); or
- SFDMS.

The Mortgagee is responsible for retrieving Error Reports from these systems and submitting necessary corrections by the fifth business day. HUD will not provide additional time to enter corrections.

##### (F) Calculation of Curtailment of Interest for Failure to Notify HUD of Foreclosure Initiation

The Mortgagee must give [Notice to HUD of Foreclosure Initiation](#) within 30 Days of initiating foreclosure by reporting the foreclosure status in the monthly SFDMS report. This is accomplished by reporting DDS Code 68 for the current cycle or following cycle in which the first required public legal action is taken to initiate foreclosure.

Interest is calculated based on the date the first public action to initiate foreclosure was taken and the reporting cycle in which the action was properly reported.

For each reporting cycle that the notification of foreclosure is delayed, the Mortgagee's claim must be reduced by an amount equivalent to 30 Days of interest. Where non-compliance with this requirement is established, the minimum interest reduction will be equal to 30 Days of interest.

The Mortgagee must report a DDS Code 68 to resolve this noncompliance.



### III. SERVICING AND LOSS MITIGATION

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#### 4. Single Family Default Monitoring System Default Reporting and Non-Incentivized Loan Modification Report

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1 Mortgagees are responsible for self-curtailling where the reporting requirement was  
2 not met.

#### 3 **(G) Reporting to HUD**

##### 4 **(1) Delinquency/Default Status Codes**

5 The Mortgagee must report the correct [DDS Code](#) reflecting the status of the  
6 Mortgage.

7 The Mortgagee must include applicable status dates when reporting DDS Codes.  
8 The Default status date must reflect the date on which the Mortgage entered the  
9 DDS Code reported.

##### 10 **(a) Reporting a New Default Episode**

11 Each new Default episode must be started by reporting DDS Code 42. If there  
12 is no open Default episode and the Mortgagee tries to report any other DDS  
13 Code, this will not be accepted in SFDMS.

14 DDS Codes may be repeated each month until another DDS Code applies.

##### 15 **(b) Correction of a Previously Reported Status Code**

16 If a Mortgagee reports a Borrower in Default in error (Status Code 42) for the  
17 first time in a Default episode, the Mortgagee must contact HUD at  
18 [sfdatarequests@hud.gov](mailto:sfdatarequests@hud.gov) for assistance.

19 When a Mortgagee discovers that the previous Status Code was reported in  
20 error, for any other reason, the Mortgagee must:

- 21 • report a Status Code 25, Cancel, to advise HUD that the last Status  
22 Code reported was in error and should be preserved as a historical  
23 record without affecting the Default sequence; and
- 24 • report the correct Status Code.

##### 25 **(c) Delinquency Workouts**

26 Delinquency workout DDS Codes represent loss mitigation tools that must be  
27 reported upon approval. The Mortgagee must not wait until receipt of funds or  
28 executed documents to report applicable DDS Codes.

29 Loss mitigation DDS Codes must be reported as the last DDS Code for the  
30 reporting month if multiple DDS Codes for which additional reporting is  
31 required are applicable during the month.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

#### 4. Single Family Default Monitoring System Default Reporting and Non-Incentivized Loan Modification Report

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1 **(i) Option Failure**

2 DDS Code AQ must be reported when the Borrower fails to perform or to  
3 fulfill obligations made for a Loss Mitigation Option. The Mortgagee must  
4 continue to report AQ until another DDS Code applies.

5 **(ii) Trial Payment Plans**

6 The Mortgagee must report the appropriate DDS Code indicating the Loss  
7 Mitigation Option for which the Borrower has been approved for a Trial  
8 Payment Plan.

9 **(d) Bankruptcy**

10 The Mortgagee must report the appropriate DDS Code indicating the type of  
11 bankruptcy filed, if the bankruptcy plan is confirmed, and the type of  
12 bankruptcy resolution.

13 **(2) Delinquency/Default Reason Codes**

14 The Mortgagee must report the **most applicable** reason for the  
15 Delinquency/Default using the [Delinquency/Default Reason \(DDR\) Codes](#).  
16 Changes **in** the reason for Default may occur during the Default episode and must  
17 be reported accordingly.

18 The Mortgagee must ensure that HUD's SFDMS reflects the appropriate Default  
19 Reason Code for the Default by the 90<sup>th</sup> Day of delinquency.

20 **(a) Unable to Contact Borrower**

21 The Mortgagee must report DDR Code 31, Unable to Contact Borrower, when  
22 the reason for delinquency cannot be ascertained because the Borrower cannot  
23 be located or has not responded to the Mortgagee's communication attempts.

24 If the Mortgagee reports DDR Code 31 in SFDMS, the Mortgagee must  
25 document its efforts to contact the Borrower in the **Servicing File** and must  
26 continue to try to determine the reason for Default.

27 A Mortgagee that establishes contact with the Borrower must report the  
28 appropriate reason for Default. If the Mortgagee later loses contact with the  
29 Borrower during the Default episode, the Mortgagee must not report DDR  
30 Code 31, Unable to Contact Borrower. Mortgagees must instead report the  
31 accurate DDR Code, and then may later report DDS Code AP to reflect that  
32 no further loss mitigation action can be reported due to loss of contact.

33 If the Mortgagee reports DDR Code 31 in error, the Mortgagee must:



### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

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##### **(4) Re-Default After Permanent Home Retention Option Is New Default**

If the Mortgage becomes in Default after the Mortgage has been reinstated through the use of a Permanent Home Retention Option, the Mortgagee must report this as a new Default episode.

##### **(5) Reporting Payment Supplement**

The Mortgagee must report the use of a Payment Supplement in SFDMS, using DDS Code 51 – Payment Supplement.

- While the Borrower remains in the Payment Supplement Period, the Mortgagee must continue to report DDS Code 51 with the applicable oldest unpaid installment date, including every month the Borrower makes their required payment under the Payment Supplement. If occupancy is not required to be determined, the Mortgagee must report Occupancy Status Code 7 – Occupancy Determination Not Required. The Mortgagee must continue to report the reason for Default determined during the Default episode.
- The Mortgagee must not report DDS Code 20 or 98 if the Payment Supplement is still in effect for the duration of the Payment Supplement Period.

For Borrowers utilizing the Payment Supplement where another delinquent Status Code also applies, the Mortgagee must report DDS Code 51 first followed by any other applicable DDS Codes.

After the completion or termination of the Payment Supplement Period, the Mortgagee must report:

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

##### **(a) Borrower Resumes Payment After Payment Supplement Period**

If the Borrower resumes their monthly Mortgage Payment following the Payment Supplement Period or the Borrower requests to terminate the Payment Supplement and affirms they can resume their full monthly Mortgage Payment, the Mortgagee must report DDS Code 98.

##### **(b) Subsequent Default**

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

### III. SERVICING AND LOSS MITIGATION

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1 If the Borrower does not make their required payment under the Payment  
2 Supplement and then reinstates their Mortgage without the use of a Loss  
3 Mitigation Option, the Mortgagee must continue to report DDS Code 51 with  
4 the applicable oldest unpaid installment date. The Mortgagee must not report  
5 DDS Code 20 or 98 as long as the Payment Supplement is still in effect.

##### **(i) Forbearance during Payment Supplement Period**

7 If the Borrower begins a Forbearance during the Payment Supplement  
8 Period, the Mortgagee must:

- 9 • report the appropriate DDS Code for the Loss Mitigation Option  
10 utilized; and
- 11 • continue to report DDS Code 51 with the applicable oldest unpaid  
12 installment date until new executed loss mitigation documents are  
13 received.

##### **(ii) Standalone Partial Claim after Subsequent Default**

14 If the Borrower does not make their required payment under the Payment  
15 Supplement and then reinstates their Mortgage with the use of a  
16 Standalone Partial Claim, the Mortgagee must:

- 17 • report the appropriate DDS Code for the Standalone Partial Claim  
18 utilized;
- 19 • continue to report DDS Code 51 with the applicable oldest unpaid  
20 installment date; and
- 21 • not report DDS Code 20 or 98 as long as the Payment Supplement  
22 is still in effect.  
23

##### **(iii) Other Loss Mitigation Options after Subsequent Default**

24 If the Borrower does not make their required payment under the Payment  
25 Supplement and then reinstates their Mortgage with the use of other Loss  
26 Mitigation Options, the Mortgagee must:

- 27 • report the appropriate DDS Code for the Loss Mitigation Option  
28 utilized;
- 29 • continue to report DDS Code 51 with the applicable oldest unpaid  
30 installment date until new executed loss mitigation documents are  
31 received; and
- 32 • report DDS Code 98 upon reinstatement and stop reporting DDS  
33 Code 51.  
34

##### **(iv) Option Failure**

35 If the Borrower does not sign and return the Payment Supplement  
36 Documents or does not make their required payment under the Payment  
37

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

#### 4. Single Family Default Monitoring System Default Reporting and Non-Incentivized Loan Modification Report

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1 Supplement and cannot reinstate their Mortgage with or without the use of  
2 loss mitigation, the Mortgagee must report DDS Code AQ – Option  
3 Failure with the applicable Occupancy Status Code and applicable  
4 Occupancy Status Date.

#### 5 (c) Sale, Refinance, or Other Mortgage Termination

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

#### 9 (d) Assumption

10 If the Mortgage is assumed before the end of the Payment Supplement Period,  
11 the Mortgagee must report DDS Code 21.

#### 12 (e) Bankruptcy

13 If the Borrower is in bankruptcy and continues to make their required payment  
14 under the Payment Supplement, the Mortgagee is not required to report  
15 bankruptcy.

#### 16 (6) Reporting Foreclosure/CWCOT Outcomes

17 **The** Mortgagee must report the DDS Codes that apply to the foreclosure sale,  
18 Claims Without Conveyance of Title (CWCOT), or CWCOT post-foreclosure  
19 sale outcomes at the end of each reporting cycle. For Properties marketed post-  
20 foreclosure sale, the applicable DDS Code indicating the marketing period must  
21 be reported. For all Properties sold, the Mortgagee must report the buyer type.

22 Mortgagees must report the DDS Codes as follows:

- 23 • Status Code 1D – Post-Foreclosure Initial Exclusive Period
- 24 • Status Code 1J – Post-Foreclosure Extended Sales Period
- 25 • Status Code 2U – Owner-Occupant Buyer Successful Bidder
- 26 • Status Code 2N – Nonprofit Successful Bidder
- 27 • Status Code 2G – Governmental Entity Successful Bidder
- 28 • Status Code 2I – Investor/Other Successful Bidder
- 29 • Status Code 2R – Borrower Successful Bidder
- 30 • Status Code 2S – Servicer Successful Bidder

31 Mortgagees must report one of the existing termination DDS **C**odes at the  
32 conclusion of the Default episode:

- 33 • Status Code 46 – Property Conveyed to Insurer; expected to follow 2S, 1J,  
34 or 1E when a conveyance claim will be filed with HUD.

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

#### 4. Single Family Default Monitoring System Default Reporting and Non-Incentivized Loan Modification Report

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- 1                   • Status Code 48 – Claim without Conveyance of Title; expected to follow
- 2                   2U, 2N, 2G, 2I, 2R, or 2S when a CWCOT claim will be filed with HUD.
- 3                   • Status Code 29 – Charge-off; expected after a 2S when a Mortgagee
- 4                   cannot pursue HUD disposition options and will not file any termination
- 5                   claim with HUD.
- 6                   • Status Code 30 – Third-Party Sale; expected to follow 2U, 2N, 2G, or 2I
- 7                   when no claim will be filed with HUD.
- 8                   • Status Code 73 – Property Redeemed; expected to follow 2S when a
- 9                   Borrower redeems the Property, and no claim will be filed with HUD.

#### 10           **b. Non-Incentivized Loan Modification Reporting**

11           The Mortgagee must report the characteristics of all Loan Modifications for which no claim  
12           is filed in FHA Connection (FHAC) within 90 Days of the executed Loan Modification.

13           These characteristics are the following:

- 14           • Mortgage Amount – The amount of the modified Mortgage.
  - 15           • Interest Rate – The new interest rate for the modified Mortgage.
  - 16           • Agreement Date – This must be before the new first payment date and at least 90  
17           Days from the last agreement date. It is recommended that the execution date is  
18           entered in this field. For instances in which this is not possible, the approval date may  
19           be used.
  - 20           • First Payment Date – The new first payment due date after the Mortgage was  
21           modified.
  - 22           • Maturity Date – The new maturity date for the modified Mortgage.
- 23

IV. CLAIMS AND Disposition

A. Title II Claims

1. Claim Submission Process

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1 IV. CLAIMS AND DISPOSITION

2 A. TITLE II CLAIMS

3 1. Claim Submission Process

4 2. Claim Types

5 a. Claim Type 01 – Conveyances (11/07/2023) [Updates in this section must be  
6 implemented where the deadline to meet the first legal action is on or after March  
7 31, 2022] [This section remains unchanged.]

8 b. Claim Type 02 - Assignment or Single Family Loan Sale Program (11/07/2023) [This  
9 section remains unchanged.]

10 c. Claim Type 05 - Supplemental Claims/Remittances (03/01/2023) [This section  
11 remains unchanged.]

12 d. Claim Type 06 - Claims Without Conveyance of Title (08/19/2024) [Updates in this  
13 section must be implemented for Post-Foreclosure Sales scheduled to occur on or  
14 after August 3, 2022] [This section remains unchanged.]

15 e. Claim Type 07 - Pre-Foreclosure Sales (09/26/2022)

16 The Mortgagee may file a claim for a [PFS](#) incentive and insurance benefits under Claim  
17 Type 07.

18 i. Computation of Interest

19 (A) Standard

20 HUD will pay debenture interest as follows:

- 21 • on the unpaid principal balance from the date of Default to the date of the  
22 closing of the PFS;
- 23 • on the difference between the unpaid principal balance, plus allowable costs  
24 and advances, and the net PFS proceeds from the date of the closing of the  
25 PFS to the date of claim settlement; and
- 26 • on allowable costs and advances from the date of expenditure to the date of  
27 the closing of the PFS.

28 f. Claim Type 31 - Special Forbearance [add sunset date here]

29 The Mortgagee may file a claim for an [SFB-Unemployment](#) incentive under Claim Type 31.  
30 HUD will pay the Mortgagee a financial incentive for the use of an SFB-Unemployment  
31 Option in compliance with all regulatory requirements and procedures relating to the  
32 submission of incentive claims.



#### IV. CLAIMS AND Disposition

##### A. Title II Claims

##### 2. Claim Types

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1 HUD must receive a correct and complete claim submission of Parts A and B via FHAC or  
2 FHA Catalyst within 60 Days of the execution date of the SFB-Unemployment Agreement or  
3 the incentive claim will not be processed.

##### 4 **g. Claim Type 32 \*\* - FHA-HAMP Loan Modification [add sunset date here]**

5 The Mortgagee may file a claim for an [FHA-HAMP Loan Modification](#) incentive, including  
6 up to \$250 in title-related expenses, under Claim Type 32 \*\*. HUD will pay the Mortgagee a  
7 financial incentive for the use of an FHA-HAMP Loan Modification in compliance with all  
8 regulatory requirements and procedures relating to the submission of incentive claims.

9 The Mortgagee may only file for an incentive fee for the Loss Mitigation Option used to cure  
10 the Default. When the FHA-HAMP Partial Claim and FHA-HAMP Loan Modification are  
11 used together, the Mortgagee must submit two separate claims for the incentives for these  
12 two options.

13 HUD must receive a correct and complete claim submission of Parts A and B via FHAC or  
14 FHA Catalyst within 60 Days of the execution date of the FHA-HAMP Loan Modification or  
15 the incentive claim will not be processed.

##### 16 **h. Claim Type 32 \*\* - Loan Modification**

17 The Mortgagee may file a claim for an incentive, including up to \$250 in title-related  
18 expenses, under Claim Type 32 \*\*. HUD will pay the Mortgagee a financial incentive for the  
19 use of a Loan Modification in compliance with all regulatory requirements and procedures  
20 relating to the submission of incentive claims.

21 The Mortgagee may only file for an incentive fee when the Loss Mitigation Option is used to  
22 cure the Default. When the Partial Claim and Loan Modification are used together, the  
23 Mortgagee must submit two separate claims.

24 HUD must receive a correct and complete claim submission of Parts A and B via FHAC or  
25 FHA Catalyst within 60 Days of the execution date of the Loan Modification or the incentive  
26 claim will not be processed.

##### 27 **i. Claim Type 32 – Disaster Loan Modification**

28 The Mortgagee may file a claim for a Disaster Loan Modification incentive, including up to  
29 \$250 in title-related expenses, under Claim Type 32. HUD will pay the Mortgagee a financial  
30 incentive for the use of a Disaster Loan Modification in compliance with all regulatory  
31 requirements and procedures relating to the submission of incentive claims.

32 The Mortgagee may only file for an incentive fee when the Loss Mitigation Option is used to  
33 cure the Default. When the Disaster Partial Claim and Disaster Loan Modification are used  
34 together, the Mortgagee must submit two separate claims.

#### IV. CLAIMS AND Disposition

##### A. Title II Claims

##### 2. Claim Types

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1 HUD must receive a correct and complete claim submission of Parts A and B via FHAC or  
2 FHA Catalyst within 60 Days of the execution date of the Loan Modification or the incentive  
3 claim will not be processed.

##### 4 j. Claim Type 33 \*\* - FHA-HAMP Partial Claim [add sunset date here]

5 The Mortgagee may file a claim for an [FHA-HAMP Partial Claim](#) incentive and insurance  
6 benefits under Claim Type 33 \*\*. The Mortgagee may include in its claim [Legal Fees and](#)  
7 [Foreclosure Costs for Partial Claims](#) as outlined in the Servicing and Loss Mitigation section  
8 of the Handbook 4000.1. HUD will pay the Mortgagee a financial incentive for the use of an  
9 FHA-HAMP Partial Claim in compliance with all regulatory requirements and procedures  
10 relating to the submission of incentive claims.

11 The Mortgagee may only file for an incentive fee for the Loss Mitigation Option used to cure  
12 the Default. When the FHA-HAMP Partial Claim and FHA-HAMP Loan Modification are  
13 used together, the Mortgagee must submit two separate claims for the incentives for these  
14 two options.

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

##### 18 k. Claim Type 33 \*\* - Partial Claim

19 The Mortgagee may file a claim for a [Partial Claim](#) incentive and insurance benefits under  
20 Claim Type 33 \*\*. The Mortgagee may include in its claim [Legal Fees and Foreclosure Costs](#)  
21 [for Partial Claims](#) as outlined in the Servicing and Loss Mitigation section. HUD will pay the  
22 Mortgagee a financial incentive for the use of a Partial Claim.

23 The Mortgagee may only file for an incentive fee when the Loss Mitigation Option is used to  
24 cure the Default. When the Partial Claim and Loan Modification are used together, the  
25 Mortgagee must submit two separate claims.

26 The Mortgagee may include an incentive fee if the claim is submitted no later than 60 Days  
27 from the execution date of the Partial Claim.

##### 28 l. Claim Type 33 – Disaster Partial Claim (09/26/2022)

29 The Mortgagee may file a claim for a Disaster Standalone Partial Claim insurance benefit  
30 under Claim Type 33, using the Default Reason Code 43. The Mortgagee may include in its  
31 claim the accumulated [Arrearages](#), eligible unreimbursed Mortgagee advances, and related  
32 fees and costs chargeable to the Mortgagee as outlined in the Servicing and Loss Mitigation  
33 section.

34 The Mortgagee may only file for an incentive fee when the Loss Mitigation Option is used to  
35 cure the Default. When the Partial Claim and Loan Modification are used together, the  
36 Mortgagee must submit two separate claims.

#### IV. CLAIMS AND Disposition

##### A. Title II Claims

##### 2. Claim Types

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1 The Mortgagee may include an incentive fee if the claim is submitted no later than 60 Days  
2 from the execution date of the Partial Claim.

##### 3 **m. Claim Type 33 – Standalone Partial Claim during Payment Supplement Period**

4 The Mortgagee may file a claim for a Standalone Partial Claim incentive and insurance  
5 benefits under Claim Type 33. The Mortgagee may include in its claim the accumulated  
6 Arrearages, eligible unreimbursed Mortgagee advances, and related fees and costs as outlined  
7 in [Payment Supplement](#).

8 The Mortgagee may file for an incentive fee only when the Standalone Partial Claim is used  
9 to cure the Default during the Payment Supplement Period.

10 The Mortgagee may include an incentive fee if the claim is submitted no later than 60 Days  
11 from the execution date of the Partial Claim.

##### 12 **n. Claim Type 33 – National Emergency Standalone Partial Claim (01/30/2023) [add** 13 **sunset date here]**

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

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

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

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

##### 29 **o. Claim Type 32 – COVID-19 Recovery Modification or COVID-19 Advance Loan** 30 **Modification (01/30/2023) [add sunset date here]**

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

#### IV. CLAIMS AND Disposition

##### A. Title II Claims

##### 2. Claim Types

---

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

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

##### 8 **p. Claim Type 33 – Payment Supplement (01/01/2025)**

9 The Mortgagee may file a claim for a Payment Supplement incentive and insurance benefits  
10 under Claim Type 33 – Payment Supplement after the Mortgage is brought current. The  
11 Mortgagee may include in its claim the amounts needed to bring the Mortgage current in the  
12 same manner as a Standalone Partial Claim, in addition to the funds needed for the Monthly  
13 Principal Reduction (MoPR) payments required for the Payment Supplement Period.

14 HUD will pay the Mortgagee a one-time financial incentive for the use of a Payment  
15 Supplement in compliance with requirements relating to the submission of incentive claims.

16 HUD must receive a correct and complete claim submission of Parts A and B via FHAC or  
17 FHA Catalyst no later than 60 Days after the execution date of the Payment Supplement  
18 Documents or the claim will be denied.

##### 19 **q. Claim Type 33 – Disaster Payment Supplement**

20 The Mortgagee may file a claim for a Disaster Payment Supplement incentive and insurance  
21 benefits under Claim Type 33 – Disaster Payment Supplement after the Mortgage is brought  
22 current. The Mortgagee may include in its claim the amounts needed to bring the Mortgage  
23 current in the same manner as a Disaster Standalone Partial Claim, in addition to the funds  
24 needed for the MoPR payments required for the Payment Supplement Period.

25 HUD will pay the Mortgagee a one-time financial incentive for the use of a Payment  
26 Supplement in compliance with requirements relating to the submission of incentive claims.

27 HUD must receive a correct and complete claim submission of Parts A and B via FHAC or  
28 FHA Catalyst no later than 60 Days after the execution date of the Payment Supplement  
29 Documents or the claim will be denied.

1 **APPENDIX 4.0 - FHA HOME RETENTION OPTIONS CALCULATIONS**  
 2 **(APPLIES TO SERVICING ONLY)**

3 UPB refers to the unpaid principal balance on the Mortgage.

4 SIP refers to HUD’s SMART (Single Family Mortgage Asset Recovery Technology) Integrated  
 5 Portal.

6 **Part A: Arrearages**

<b>Step 1 – Calculate the Items to Include in Arrearages</b>	<b>Result</b>
a. Only applicable for Repayment Plans, Partial Claims, and Payment Supplements, calculate the principal amounts that are past due.	\$
b. Calculate accrued interest amounts that are past due.	\$
c. Calculate Mortgagee advances for escrow items.	\$
d. Calculate projected escrow shortage amount after completion of an escrow analysis.	\$
e. Calculate allowable legal fees and foreclosure and bankruptcy costs for work performed for the current Default episode as of the date of the foreclosure cancellation and not higher than the fees and costs HUD has identified as customary and reasonable.	\$
<b>Step 2 – Calculate Total Arrearages for Repayment Plans, Partial Claims, and Payment Supplements</b>	<b>Result</b>
Add amounts in Steps 1.a-e.	\$
<b>Step 3 – Calculate Total Arrearages for Loan Modifications or Combination Loan Modifications and Partial Claims</b>	<b>Result</b>
Add amounts in Steps 1.b-e.	\$

7

8 **Part B: Partial Claim Availability**

9 For the purposes of calculating available Partial Claim funds, any Payment Supplement is treated  
 10 the same as a Partial Claim, and initial or previous Partial Claims include Payment Supplements.

<b>Step 1 –</b>	<b>Result</b>
Verify if the Borrower has previously received a Partial Claim in SIP. Enter the UPB at the time of the initial Partial Claim or, if the Borrower did not receive any previous Partial Claim(s), enter the UPB as of the date of Default for this episode.	\$

<b>Step 2 –</b>	<b>Result</b>
Multiply the result in Step 1 by 30%.	\$
<b>Step 3 –</b>	<b>Result</b>
Did the Borrower previously receive a Partial Claim as reported in SIP?	If yes, proceed to Step 4.  If no, the result in Step 2 is the maximum Partial Claim amount available for the current Default episode.
<b>Step 4 –</b>	<b>Result</b>
Subtract the total amount of all Partial Claim(s) paid on the Mortgage, as reported in SIP, from the 30% statutory maximum funds available established in Step 2.	\$ This is the maximum Partial Claim amount available for the current Default episode.

1

2 **Part C: Borrower Attests They Can Resume Mortgage Payments**

<b>Step 1 – Determine the Arrearages, Partial Claim Availability, and Monthly Principal and Interest (P&amp;I) Payment for a Standalone Partial Claim</b>	<b>Result</b>
a. Enter the Arrearages (Part A, Step 2).	\$ Proceed to Step 1.b.
b. Enter the Partial Claim Availability (Part B).	\$ Proceed to Step 1.c.
c. Enter the monthly P&I payment under a Standalone Partial Claim.	\$ Proceed to Step 2.
<b>Step 2 – Calculate Monthly P&amp;I Payment under Standalone Loan Modification</b>	<b>Result</b>
a. Add Arrearages (calculated in Part A, Step 3) to the UPB to determine the total amount to be resolved.	\$ Proceed to Step 2.b.
b. Re-amortize the total amount to be resolved (Step 2.a) for a 30-year term at the Market Rate to determine the modified monthly P&I payment.	\$ Proceed to Step 3.
<b>Step 3 – Compare Monthly P&amp;I for Standalone Partial Claim and Standalone Loan Modification</b>	<b>Result</b>
Is the monthly P&I payment for a Standalone Loan Modification at least 5% and \$20 less than the P&I payment for a Standalone Partial Claim?	If yes, offer the Borrower a Standalone Loan Modification (calculated in Step 2).  If no, proceed to Step 4.

<b>Step 4 – Determine if the Borrower has Sufficient Partial Claim Funds for a Standalone Partial Claim</b>	<b>Result</b>
<p>Are the Arrearages (Step 1.a) less than or equal to the Partial Claim Availability (calculated in Part B)?</p>	<p>If yes, offer the Borrower a Standalone Partial Claim.</p> <p>If no, evaluate the Borrower for a Permanent Home Retention Option with payment reduction starting with the Standalone Loan Modification in Part D.</p>

1

2 **Part D: Calculate Standalone Loan Modification**

<b>Step 1 – Calculate 25% P&amp;I Reduction</b>	<b>Result</b>
<p>Multiply the current P&amp;I by 0.75 to determine the target payment with a 25% P&amp;I reduction.</p>	<p>\$ Proceed to Step 2.</p>
<b>Step 2 – Determine Total Amount to be Resolved</b>	<b>Result</b>
<p>Add Arrearages (calculated in Part A, Step 3) to the UPB to determine the total amount to be resolved.</p>	<p>\$ Proceed to Step 3.</p>
<b>Step 3 – Determine if a 30-Year Modification can Achieve a 25% P&amp;I Reduction</b>	<b>Result</b>
<p>a. Re-amortize the total amount to be resolved (Step 2) for a 30-year term at the Market Rate to determine the modified monthly P&amp;I payment.</p>	<p>\$ Proceed to Step 3.b.</p>
<p>b. Determine if the result in Step 3.a is equal to or less than the target payment calculated in Step 1.</p>	<p>If yes, offer the Borrower a Standalone Loan Modification for a term of 30 years.</p> <p>If no, proceed to Step 4.</p>
<b>Step 4 – Determine if a 40-Year Modification can Achieve a 25% P&amp;I Reduction</b>	<b>Result</b>
<p>a. Re-amortize the total amount to be resolved (Step 2) for a 40-year term at the Market Rate to determine the modified monthly P&amp;I payment.</p>	<p>\$ Proceed to Step 4.b.</p>
<p>b. Determine if the result in Step 4.a is equal to or less than the target payment calculated in Step 1.</p>	<p>If yes, offer the Borrower a Standalone Loan Modification for a term of 40 years.</p> <p>If no, proceed to Step 5.</p>

<b>Step 5 – Consider if the Borrower is Eligible for Other Permanent Home Retention Options</b>	<b>Result</b>
Does the Borrower have a minimum of \$1,000 in Partial Claim Availability (calculated in Part B)?	<p>If yes, review the Borrower for a Combination Loan Modification and Partial Claim.</p> <p>If no, offer the Borrower a Standalone Loan Modification that is modified to a term of 40 years, even if the payment increases.</p>

1

2 **Part E: Combination Loan Modification and Partial Claim Calculations**

<b>Step 1 – Calculate 25% P&amp;I Reduction</b>	<b>Result</b>
Enter the target payment with a 25% P&I reduction (calculated in Part D, Step 1).	\$ Proceed to Step 2.
<b>Step 2 – Determine Total Amount to be Resolved</b>	<b>Result</b>
Add Arrearages (calculated in Part A, Step 3) to the UPB to determine the total amount to be resolved.	\$ Proceed to Step 3.
<b>Step 3 - Determine if a 30-Year Combination Loan Modification and Partial Claim can Achieve a 25% P&amp;I Reduction</b>	<b>Result</b>
a. Calculate the loan amount needed to achieve the target payment (Step 1) on a 30-year term at the Market Rate.	\$
b. Subtract the target loan amount (Step 3.a) from the total amount to be resolved (Step 2) to determine the amount of Partial Claim funds required.	\$
c. Is the Partial Claim Availability (calculated in Part B) greater than or equal to the amount of Partial Claim funds required (Step 3.b)?	<p>If yes, offer the Borrower a 30-Year Combination Loan Modification and Partial Claim.</p> <p>If no, proceed to Step 4.</p>
<b>Step 4 - Determine if a 40-Year Combination Modification and Partial Claim can Achieve a 25% P&amp;I Reduction</b>	<b>Result</b>
a. Calculate the loan amount needed to achieve the target payment (Step 1) on a 40-year term at the Market Rate.	\$
b. Subtract the target loan amount (Step 4.a) from the total amount to be resolved (Step 2) to determine the amount of Partial Claim funds required.	\$



<p>c. Is the Partial Claim Availability (calculated in Part B) greater than or equal to the amount of Partial Claim funds required (Step 4.b)?</p>	<p>If yes, offer the Borrower a 40-Year Combination Loan Modification and Partial Claim.</p> <p>If no, proceed to Step 5.</p>
<p><b>Step 5 - Determine if a 40-Year Combination Loan Modification and Partial Claim can Achieve a Minimum 15% P&amp;I Reduction</b></p>	<p><b>Result</b></p>
<p>a. Multiply the current P&amp;I by 0.85 to determine the target payment with a 15% P&amp;I reduction.</p>	<p>\$</p>
<p>b. Subtract the Partial Claim Availability (calculated in Part B) from the total amount to be resolved (calculated in Step 2) to determine the maximum modified amount.</p>	<p>\$</p>
<p>c. Calculate the Mortgage Payment for a modified Mortgage amount (calculated in Step 7.A) with a 40-year term at the Market Rate.</p>	<p>\$</p>
<p>d. Is the P&amp;I portion of the Mortgage Payment (calculated in Step 7.c) greater than or equal to 15% of the current P&amp;I (calculated in Step 7.a)?</p>	<p>If yes, offer the Borrower a 40-Year Combination Loan Modification and Partial Claim.</p> <p>If no, proceed to Payment Supplement.</p> <p>If the Borrower failed an initial TPP for this Default episode and the Mortgagee's review for a subsequent 40 Year Combination Loan Modification and Partial Claim provides less than a 25% P&amp;I reduction, proceed to the Payment Supplement.</p>
<p><b>Step 6 - Offer a 40-Year Combination Loan Modification and Partial Claim for Borrowers Not Eligible for Payment Supplement</b></p>	<p><b>Result</b></p>
<p>Is the Borrower ineligible for a Payment Supplement or does not have sufficient Partial Claim Availability to receive a Payment Supplement for the Minimum Monthly Principal Reduction (Minimum MoPR)?</p>	<p>Offer the Borrower a Combination Loan Modification and Partial Claim for 40 years even if the payment increases.</p>

1 **Part F: Payment Supplement Calculations**

<b>Step 1 – Determine Partial Claim Availability</b>	<b>Result</b>
Enter the Partial Claim Availability (calculated in Part B).	\$ If the result is greater than 0, proceed to Step 2.  If no Partial Claim funds are available, the Borrower is not eligible for the Payment Supplement.
<b>Step 2 – Calculate Amount Required to Reinstate the Mortgage Using a Payment Supplement</b>	<b>Result</b>
Enter Arrearages (calculated in Part A, Step 2) to bring Mortgage current.	\$ Proceed to Step 3.
<b>Step 3 – Calculate Partial Claim Funds Available for MoPR</b>	<b>Result</b>
a. Subtract the amount in Step 2 from the amount in Step 1 to determine the amount of Partial Claim funds available for the MoPR.	\$
b. Is the amount in Step 3.a greater than 0?	If yes, proceed to Step 4.  If no, the Borrower is not eligible for the Payment Supplement.
<b>Step 4 – Calculate Maximum MoPR</b>	<b>Result</b>
<b>Step 4.a – Calculate 25% P&amp;I Reduction:</b>	
1. Enter the P&I portion of the Borrower’s monthly Mortgage Payment as of the date the Payment Supplement Period begins.	\$
2. Multiply Step 4.a.1 by 25%.	\$
3. Enter the principal portion only of the monthly Mortgage Payment as of the date the Payment Supplement Period begins.	\$
<b>Step 4.b – Determine Maximum MoPR</b>	
Enter the lesser of Step 4.a.2 or Step 4.a.3 to determine the maximum MoPR.	\$ Proceed to Step 5.
<b>Step 5 – Calculate the MoPR</b>	<b>Result</b>
<b>Step 5.a – Determine if the Borrower has Sufficient Partial Claim Funds Available to Achieve the Maximum MoPR for 36 Months</b>	
1. Multiply the result of Step 4.b by 36 months to determine the amount needed to provide 36 months of the maximum MoPR.	\$
2. Is the amount of Partial Claim funds available for the MoPR in Step 3.a greater than or equal to the maximum MoPR for 36 months?	If yes, the maximum MoPR calculated in Step 4.b is the MoPR for the Payment

	Supplement Period. Proceed to Step 6.  If no, proceed to Step 5.
<b>Step 5.b – If the Borrower does not have Sufficient Partial Claim Funds Available for a Maximum MoPR for 36 Months (as Calculated in Step 5.A.), Calculate the MoPR</b>	
Divide the amount of Partial Claim funds available for the MoPR in Step 3.a by 36.	\$ This is the MoPR for the Payment Supplement Period. Proceed to Step 6.
<b>Step 6 – Payment Reduction Test: Determine if a MoPR of no less than 5% and no less than \$20.00 can be Achieved for 36 Months</b>	
a. Divide the MoPR as determined in Step 5 by the current P&I payment in Step 4.a.1.	%
b. Is the result in Step 6.a greater than 5%?	Yes/No
c. Is the amount of the MoPR as determined in Step 5 equal to or greater than \$20.00?	Yes/No
d. Are the results in both Step 6.b and Step 6.c “Yes”?	Yes/No If yes, the Borrower is eligible for the MoPR calculated in Step 5 for the 36 months of the Payment Supplement Period. Proceed to Step 7.  If no, the Borrower is not eligible for the Payment Supplement. The Mortgagee must offer the Borrower the lowest monthly P&I payment achieved under either a 40-Year Combination Loan Modification and Partial Claim or a Standalone Partial Claim, if sufficient funds are available.
<b>Step 7 – Compare Savings with Available Permanent Home Retention Options</b>	
Compare the Borrower’s proposed P&I monthly payment under the Payment Supplement with the Borrower’s proposed P&I monthly payment under a 40-Year Combination Loan Modification and Partial Claim to determine the greater payment reduction.  <ul style="list-style-type: none"> <li>If the Borrower is able to achieve a lower monthly P&amp;I payment with the 40-Year Combination Loan Modification and Partial Claim, the Mortgagee must offer the Borrower the 40-Year Combination Loan Modification and Partial Claim.</li> </ul>	

- If the Borrower is not able to achieve a lower monthly P&I payment utilizing the 40-Year Combination Loan Modification and Partial Claim, the Mortgagee must offer the Borrower the Payment Supplement.

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Drafting Table