



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
**FEDERAL HOUSING ADMINISTRATION**  
SINGLE FAMILY HOUSING



National Servicing Center  
***Single Family Housing Policy Handbook 4000.1***  
**Section III: Servicing and Loss Mitigation**  
**Key Changes**

4/22/2021

Last Updated: 4/19/2021

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National Servicing Center



OFFICE OF SINGLE FAMILY HOUSING



# Agenda

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Overview of Servicing Update

Goals

Key Updates

Section III.A.1 – Servicing of FHA-Insured Mortgages

Section III.A.2 – Default Servicing

Section III.A.3 – Programs and Product



# Overview of Servicing Update

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The Department of Housing and Urban Development (HUD) has completed an in-depth update of the Servicing and Loss Mitigation section of the *Single Family Housing Policy Handbook 4000.1* (Handbook 4000.1).

- Changes were driven by:
  - Rigorous analysis of impacts of options for Borrowers and risks to the Federal Housing Administration (FHA)
  - Proposed improvements to processes
  - Desire to align FHA policy with industry standards and Consumer Finance and Protection Bureau (CFPB) Requirements
  - Public and industry feedback



# Goals

## Benefits to Borrowers

- Improves chances of a Borrower retaining their home
- Minimizes documentation requirements
- Reduces processing times for loss mitigation assistance

## Benefits to Industry

- Streamlines loss mitigation processes
- Reduces costs of FHA Servicing
- Reduces compliance costs and regulatory risks by aligning industry standards
- Reduces timeframes for processing Loss Mitigation actions

# Effective Date

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Mortgagees may begin to implement the updates to HUD's policies published in Section III: Servicing and Loss Mitigation immediately but must be implemented no later than August 17, 2021.



# Key Updates

## Revise FHA's Loss Mitigation Waterfall, including:

- Moves FHA-HAMP earlier in the process
- Limits the use of Repayment Plans

## Streamline documentation requirements, including:

- Aligns loss mitigation documentation with Government Sponsored Enterprises (GSEs)
- Reduces documentation requirements including signature requirements for Trial Payment Plans and Forbearances, as well as surplus income requirements
- Aligns, where possible, FHA policy with industry and CFPB Requirements

## Update allowable fees and costs, including:

- Aligns FHA Servicing Attorney Fees with the Fannie Mae Attorney Fee Schedule
- Updates property preservation costs, including removing the cost of debris from the cap of allowable expenses

# Section III.A.1

## Servicing of FHA-Insured Mortgages



# Section III.A.1. Servicing of FHA-Insured Mortgages – Policy Change

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## Handbook Reference

III.A.1.I.ii.(F) Mortgage Insurance Termination  
– Effect of Voluntary Termination on Outstanding Partial Claims

## Policy Change

**Added a Borrower Notification requirement for Voluntary Termination of FHA Mortgage Insurance**

### **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.”





# Section III.A.1. Servicing of FHA-Insured Mortgages – Minor Updates

Handbook Reference:	Minor Updates:
III.A.1. – Servicing of FHA-Insured Mortgages	<ul style="list-style-type: none"><li>• <b>III.A.1.a. Servicing Roles and Responsibilities</b><ul style="list-style-type: none"><li>– Clarified Servicer/Holder definitions and roles</li></ul></li><li>• <b>III.A.1.e.i.(A) Payment Administration – Receipt of Payments</b><ul style="list-style-type: none"><li>– Added a definition for Trust Clearing Account</li></ul></li><li>• <b>III.A.1.f.ii. Servicing Fees and Charges – Standard</b><ul style="list-style-type: none"><li>– Removed the requirement that Mortgagees must request HUD approval for other fees or charges</li></ul></li><li>• <b>III.A.1.j.ii.(A)-(B) j. Post-Endorsement Mortgage Amendments – Modifying a Performing Mortgage</b><ul style="list-style-type: none"><li>– Clarified the modified payment change is based on P&amp;I only</li><li>– Clarified Mortgagee may not file an incentive claim</li></ul></li></ul>

# Section III.A.2

## Default Servicing



# Section III.A.2. Default Servicing – Policy Change

## Handbook Reference

III.A.2.h Early Default Intervention  
– iii. Collection Communication  
Timeline,  
– vi. Contact Efforts for  
Delinquent Borrowers

III.A.2.h.iv. Early Default  
Intervention  
– Communication Methods

## Policy Change

### **Updates Required Early Default Communication**

Changed the Day of Delinquency that Mortgagees are required to contact Borrowers by telephone (formerly Day 17), and mail and electronic communication (formerly Day 20) to Day 25 in the Standard.

Replaced prescriptive Mortgagee telephone and electronic communication requirements with standard requirements for all types of Contact Efforts in Selecting the Best Method of Communication, which is a new/moved section that combines old and new language.



# Section III.A.2. Default Servicing – Policy Change (cont.)

## Handbook Reference

III.A.2.i.iv Loss Mitigation Review  
– Evaluation of the Borrower’s  
Financial Condition

## Policy Change

### Updates Required Documentation and Calculations for Borrower’s Income, Assets, and Hardship

- Adds Loss Mitigation definitions for Borrower, Continuous Income and Hardship
- Removes requirement for Mortgagee to review and obtain documentation related to the Borrower’s Living Expenses
- Advises Mortgagees that the Fannie Mae/Freddie Mac Form 710 may be used to collect the income, asset and hardship documentation

## Section III.A.2. Default Servicing – Policy Change (cont.)

### Handbook Reference

III. A.2.j.iii HUD's Loss Mitigation Program  
– HUD's Loss Mitigation Priority Waterfall

### Policy Change

#### Updates the Loss Mitigation Waterfall

- Updated HUD Loss Mitigation Priority waterfall order for Owner-Occupant Borrowers with a verifiable loss of income or increase in living expenses. The new Waterfall order is:
  - Special Forbearance-Unemployment
  - FHA-HAMP Standalone Loan Modification
  - FHA-HAMP Standalone Partial Claim
  - FHA-HAMP Combination Loan Modification and Partial Claim
  - Informal or Formal Forbearance
  - Streamlined or Standard PFS
  - Streamlined or Standard Deed-in-Lieu
- Removed Surplus Income Calculation



# Section III.A.2. Default Servicing – Policy Change (cont.)

Loss Mitigation Waterfall Options			
Question	Decision Point	Yes	No
1	Is the Borrower an Owner-Occupant?	Question 2	Informal or Formal Forbearance or Question 9
2	Has the Borrower experienced a verified loss of income or increase in living expenses?	Question 3	Informal or Formal Forbearance or Foreclosure
3	Is one or more Borrowers receiving Continuous Income?	Question 4	Special Forbearance-Unemployment
4	Can a Mortgage Payment at or below the target monthly Mortgage Payment be achieved by re-amortizing the total outstanding debt for 360 months at the Market Rate?	FHA-HAMP Standalone Loan Modification	Question 5
5	Is the Borrower's current interest rate at or below Market Rate, and is the current Mortgage Payment with re-analyzed escrow at or below the target payment?	FHA-HAMP Standalone Partial Claim	Question 6
6	Can the FHA-HAMP Combination Loan Modification and Partial Claim bring the loan current with a Mortgage Payment at or below 40 percent of current income?	FHA-HAMP Combination Loan Modification and Partial Claim	Question 7
7	Is the FHA-HAMP Combination Loan Modification and Partial Claim Mortgage Payment at or greater than 40% of current income, <u>and</u> one or more Borrowers are unemployed?	Special Forbearance-Unemployment	Question 8
8	Has the Borrower been determined ineligible for all Home Retention Options, but has income or other assets to repay the indebtedness within six months?	Formal Forbearance Not to Exceed Six Months	Question 9
9	Does the Borrower meet the requirements to participate in a Pre-Foreclosure Sale (PFS)?	Streamlined PFS or Standard PFS	Question 10
10	Does the total outstanding debt remain incurable and was an attempt made to market the Property under the PFS Program?	Streamlined or Standard Deed-in-Lieu	Foreclosure



## Section III.A.2. Default Servicing – Policy Change (cont.)

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### Handbook Reference

III.A.2.k.iii Loss Mitigation  
Home Retention Options  
– Forbearance Plans

### Policy Change

#### Forbearance Plans

- Updated Informal and Formal Forbearance Plan Eligibility
- Removed signature requirements
- Updated the written agreement notification requirements for Formal Forbearance and Special Forbearance-Unemployment

## Section III.A.2. Default Servicing – Policy Change (cont.)

### Handbook Reference

III.A.2.k.v.(B)(1) Loss Mitigation Home Retention Options, FHA-HAMP

- FHA-HAMP Eligibility
- Mortgage Status

### Policy Change

#### **Removes the Mortgage seasoning requirements for FHA-HAMP Eligibility**

- Removes the following Mortgage seasoning requirements under Eligibility for Borrowers in Default and Imminent Default:
  - at least 12 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.



## Section III.A.2. Default Servicing – Policy Change (cont.)

### Handbook Reference

III.A.2.i.k.v.(B)(2) Loss Mitigation Home Retention Options,  
– FHA-HAMP  
– FHA-HAMP Eligibility  
– Borrower Qualifications

### Policy Change

#### Updates Borrower Qualification criteria for FHA-HAMP Eligibility

- Removes the following Borrower Qualification requirements under Eligibility to align with the changes to the Waterfall:
  - Mortgagees are no longer required to ensure the Borrower's front-end ratio is greater than 31%, and
  - Mortgagees are no longer required to calculate the Borrower's surplus income or ensure 85% of their surplus income is insufficient to cure arrears within six months.



## Section III.A.2. Default Servicing – Policy Change (cont.)

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### Handbook Reference

III.A.2.k.v.(G) FHA-HAMP  
– Trial Payment Plans

### Policy Change

#### Updates to the Trial Payment Plan (TPP)

- Updated the Definition of a Trial Payment Plan
- Removed the 12-month seasoning requirement to begin a TPP
- Removed the requirement that all parties must execute the TPP Agreement
- Updated the TPP Failure requirements

## Section III.A.2. Default Servicing – Policy Change (cont.)

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### Handbook Reference

- III.A.2.I Home Disposition Options
- ii. Pre-Foreclosure Sales (PFS)
  - iii. Deed-in-Lieu (DIL)

### Policy Change

#### **Streamlines Requirements for Standard PFS & Standard DIL**

- Updated Required Financial Documentation
- Removed the Deficit Income Test
- Removed the Cash Reserve Contribution Threshold evaluation

## Section III.A.2. Default Servicing – Policy Change (cont.)

### Handbook Reference

III.A.2.I.ii.(D)(2) Home Disposition Options, Pre-Foreclosure Sales  
– Property Valuation  
– Validation of Appraised Value

### Policy Change

#### Updated Appraisal Validation Requirements

- Clarified the circumstances that require an AVM or BPO for a PFS: Mortgagees must obtain a Broker’s Price Opinion (BPO) or Automated Valuation Model (AVM) if the as-is appraised value of the Property is:
  - less than the unpaid principal balance by an amount of \$75,000 or greater; or
  - less than 50 percent of the unpaid principal balance.
- If a BPO or AVM is required, the Mortgagee must submit a request for a variance for HUD approval through EVARS, before proceeding with the PFS using the as-is appraised value.
- If a BPO or AVM is not required, the Mortgagee is not required to submit a request for a variance through EVARS.

# Section III.A.2. Default Servicing – Policy Change (cont.)

## Handbook Reference

III.A.2.t.i.(E) Foreclosure  
– Mortgagee Action Before  
Initiation of Foreclosure  
– Curtailment of Claims

III.A.2.t.ii.(E) Foreclosure  
– Conduct of Foreclosure  
Proceedings  
– Reasonable Diligence in  
Completing Foreclosure

## Policy Change

### Clarifies Policy Regarding Curtailment of Claims & Reasonable Diligence Time Frame Definition

Updated policy reads:

For each of these self-curtailment time frames, 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.

The Reasonable Diligence Time Frame is the time period beginning at the earlier of the date the first legal action should have been filed in accordance with HUD time frames or the date the actual first legal action required by the jurisdiction to commence foreclosure was taken, and ending with the later date of acquiring good marketable title to, and possession of, the Property.



## Section III.A.2. Default Servicing – Policy Change (cont.)

### Handbook Reference

III.A.2.t.ii.(F) Foreclosure  
– Conduct of Foreclosure Proceedings  
– Allowable Foreclosure Attorney Fees and Fees Associated with Bankruptcy Clearance, Possessory Actions and Completion of a DIL

### Policy Change

#### Updates Allowable Foreclosure and Bankruptcy Attorney Fee Schedules

- Introduces and defines the required use of:
  - Fannie Mae Allowable Foreclosure Attorney Fees Exhibit and
  - Fannie Mae Allowable Bankruptcy Attorney Fees Exhibit
- HUD's Schedule of Standard Possessory Action and Deed-In-Lieu Attorney Fees are listed in the revised Appendix 5

## Section III.A.2. Default Servicing – Policy Change (cont.)

### Handbook Reference

III.A.2.v.iii.(B)(5) Conveyance of Acquiring Properties

- Condition of Properties
- Mortgage Property Preservation and Protection Action
- Property Preservation Allowances

### Policy Change

#### Updates Maximum Allowable Property Preservation Cost Limit

Updates the Property Preservation Allowables to remove the following recurring expenses from 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



## Section III.A.2. Default Servicing – Minor Updates

Handbook Reference:	Minor Updates:
III.A.2. – Servicing of FHA-Insured Mortgages	<ul style="list-style-type: none"><li>• <b>III.A.2.e.ii.(A) Partial Payments for Mortgages in Default, Application of Partial Payments Totaling a Full Monthly Payment</b><ul style="list-style-type: none"><li>– Clarified the order in which the Mortgagee must apply Borrower payments</li></ul></li><li>• <b>III.A.2.e.iii.(A) Partial Payments for Mortgages in Default, Return of Partial Payments</b><ul style="list-style-type: none"><li>– Updated the circumstances when the Mortgagee may return a Partial Payment if the Borrower is participating in an approved Trial Payment Plan</li></ul></li><li>• <b>III.A.2.h.ii SFDMS Default Reporting</b><ul style="list-style-type: none"><li>– Added Property Vacancy Reporting guidance and clarified requirements for correction of a previously Reported Status Code</li></ul></li></ul>



## Section III.A.2. Default Servicing – Minor Updates (cont.)

### Handbook Reference:

III.A.2. – Servicing of FHA-Insured Mortgages (cont.)

### Minor Updates:

- **III.A.2.h.xi.(B) Early Default Intervention, Occupancy Inspections, Standard, Determination that the Property is Vacant or Abandoned**
  - Clarified the Vacancy Date if the Mortgagee fails to inspect the Property within the required time period or fails to discover the vacancy
- **III.A.2.k.iv Loss Mitigation Home Retention Options, Special Forbearance-Unemployment**
  - Clarifies Special Forbearance Incentive Claim Filing time frame
  - Clarified that Mortgagees must submit an EVARS for HUD approval prior to approving an SFB Agreement if foreclosure has already been initiated
  - Removed language allowing a Mortgagee to address foreclosure-related fees and costs due to a Foreclosure at the expiration of the SFB Agreement

## Section III.A.2. Default Servicing – Minor Updates (cont.)

Handbook Reference:	Minor Updates:
III.A.2.k.v– Servicing of FHA-Insured Mortgages, Home Retention Options, FHA-HAMP	<ul style="list-style-type: none"><li>• <b>III.A.2.k.v FHA HAMP</b><ul style="list-style-type: none"><li>– Generally re-organized and provided further detail in FHA-HAMP Options to better align with the industry’s operationalization of the FHA-HAMP evaluation and execution process</li><li>– Moved the FHA-Home Affordable Modification Program (FHA-HAMP) Calculations previously included within this section to: Appendix 4.0</li></ul></li><li>• <b>III.A.2.k.v.(F) FHA-HAMP Partial Claim Provisions</b><ul style="list-style-type: none"><li>– Added Partial Claim Provisions section</li></ul></li></ul>

## Section III.A.2. Default Servicing – Minor Updates (cont.)

Handbook Reference:	Minor Updates:
III.A.2. – Servicing of FHA-Insured Mortgages (cont.)	<ul style="list-style-type: none"><li>• <b>III.A.2.k.vi. Non-Incentivized Loan Modification</b><ul style="list-style-type: none"><li>– Updated Definition</li><li>– Clarified the conditions under which HUD will not pay an Incentive</li><li>– Added Reporting Deadline for Non-Incentivized Loan Modifications</li></ul></li><li>• <b>III.A.2.k.vii Loss Mitigation Assumption</b><ul style="list-style-type: none"><li>– Updated Definition</li></ul></li><li>• <b>III.A.2.l Home Disposition Options</b><ul style="list-style-type: none"><li>– Generally reorganized the PFS and Deed-in-Lieu sections to better align with the industry’s evaluation and execution of the Home Disposition Options</li></ul></li></ul>

## Section III.A.2. Default Servicing – Minor Updates (cont.)

Handbook Reference:	Minor Updates:
III.A.2. – Servicing of FHA-Insured Mortgages (cont.)	<ul style="list-style-type: none"><li>• <b>III.A.2.i.ii(I)(6) PFS Marketing Period Previously Initiated Foreclosures</b><ul style="list-style-type: none"><li>– Clarified the Mortgagee may not initiate a four-month PFS marketing period for a Property after the first legal action to initiate foreclosure has occurred</li></ul></li><li>• <b>III.A.2.n. Presidentially-Declared Major Disaster Areas and III.A.2.o. Presidentially-Declared COVID-19 National Emergency</b><ul style="list-style-type: none"><li>– Moved from Section III.A.3.c-d to include with other Loss Mitigation Options</li></ul></li></ul>

## Section III.A.2. Default Servicing – Minor Updates (cont.)

### Handbook Reference:

III.A.2. – Servicing of FHA-Insured Mortgages (cont.)

### Minor Updates:

- **III.A.2.t.ii(C)(1)(a)(ii) Requests Received during Foreclosure – 45 or More Days to Scheduled Foreclosure Sale Date – Review**
  - Added content to align with CFPB requirements 12 CFR 1024.41 Loss Mitigation Procedures
    - Mortgagee must provide the Borrower with a notice in writing stating the Mortgagee’s determination of which Loss Mitigation Option, if any, it will offer to the Borrower
- **III.A.2.v.iii(B)(4) Conveyance of Acquired Properties – Condition of Properties - Mortgagee Property Preservation and Protection Action – Required Documentation**
  - Added CFR language clarifying Mortgagee will not be reimbursed for P&P costs after the time the property should have been conveyed



## Section III.A.2. Default Servicing – Minor Updates (cont.)

### Handbook Reference:

III.A.2. – Servicing of FHA-Insured Mortgages (cont.)

### Minor Updates:

- **III.A.2.v.iii(B)(5)(d) Conveyance of Acquired Properties – Condition of Properties - Property Preservation Allowances - Appeals of Over-Allowable Request Decisions**
  - Clarified the appeals process for Over-Allowable Request Decisions
- **III.A.2.v.viii(C) Extension of Time for Conveyance - Appeal of Extension Decision**
  - Clarified the submission process for appealing an Extension of Time for Conveyance decision

# Section III.A.3

## Programs and Products



## Section III.A.3. Programs and Products – Minor Updates

### Handbook Reference:

### Minor Updates:

III.A.3. – Servicing of FHA-Insured Mortgages (cont.)

- **III.A.3.b.ix Reporting of Defaults on Assumed Mortgages to Consumer Reporting Agencies**
  - Clarified requirement the Mortgagee must notify any Borrowers that remain liable for the mortgage debt that the assumed Mortgage is in Default
- **III.A.3. Presidentially-Declared Major Disaster Areas and Presidentially-Declared COVID-19 National Emergency**
  - Moved entire PDMDA and COVID-19 sections to III.A.2.k.o-n to include with other Loss Mitigation Options
- **III.A.3.e Requirements for Section 222 Mortgages**
  - Section was removed in its entirety because the program was repealed





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# Resources



# Online Loss Mitigation Resources

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- HUD COVID-19 Resources (<https://www.hud.gov/coronavirus>)
- Single Family Housing Policy Handbook 4000.1 ([https://www.hud.gov/program\\_offices/housing/sfh/handbook\\_4000-1](https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1))
- Single Family Handbook Supplemental Documents ([https://www.hud.gov/program\\_offices/housing/sfh/handbook\\_references](https://www.hud.gov/program_offices/housing/sfh/handbook_references))
- HUD Approved Counseling Agencies (<https://apps.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>)
- Extension and Variance Automated Requests System (EVARS) (<https://evars.hudnsc.org/>)
- FHA Info Announcements Archives ([https://www.hud.gov/program\\_offices/housing/sfh/FHA\\_info\\_messages](https://www.hud.gov/program_offices/housing/sfh/FHA_info_messages))
- Single Family Default Reporting Codes (<https://www.hud.gov/sites/dfiles/SFH/documents/SFDMSCODES.pdf>)



# FHA Resource Center

Option	Point of Contact	Hours Available	Comments
1 FHA Knowledge Base – FAQs	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2 Email	answers@hud.gov	24/7/365	
3 Telephone	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.	8:00 AM to 8:00 PM Eastern M-F	Voicemail is available after hours or during extended wait periods.

*FHA INFO* emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: [https://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/FHA\\_INFO\\_subscribe](https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe)



# NSC Contact Information

U.S. Department of HUD  
FHA National Servicing Center  
301 NW 6<sup>th</sup> Street  
Oklahoma City, OK 73102  
1-800-225-5342

## QUESTIONS:

- Secretary Held Servicing Contractor: 1-800-225-5342
- Home Equity Conversion Mortgage (HECM) Servicing: [hecm.servicing@novadconsulting.com](mailto:hecm.servicing@novadconsulting.com)
- EVARS (general questions only): [extensionrequests@hud.gov](mailto:extensionrequests@hud.gov)
- Training issues: [eclass@hud.gov](mailto:eclass@hud.gov)
- TRS, Data, Default Reporting: [sfdatarequests@hud.gov](mailto:sfdatarequests@hud.gov)
- Single Family FHA - Claims Processing: [FHA\\_SFClaims@hud.gov](mailto:FHA_SFClaims@hud.gov)

# Thank You!

For joining us today

