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

Presented by:
Stacey Brown
National Servicing Center
Overview of Servicing Update

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

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

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

<table>
<thead>
<tr>
<th>Handbook Reference:</th>
<th>Minor Updates:</th>
</tr>
</thead>
</table>
| III.A.1. – Servicing of FHA-Insured Mortgages | • III.A.1.a. Servicing Roles and Responsibilities  
  — Clarified Servicer/Holder definitions and roles  
• III.A.1.e.i.(A) Payment Administration – Receipt of Payments  
  — Added a definition for Trust Clearing Account  
• III.A.1.f.ii. Servicing Fees and Charges – Standard  
  — Removed the requirement that Mortgagees must request HUD approval for other fees or charges  
• III.A.1.j.ii.(A)-(B) j. Post-Endorsement Mortgage Amendments – Modifying a Performing Mortgage  
  — Clarified the modified payment change is based on P&I only  
  — Clarified Mortgagee may not file an incentive claim |
Section III.A.2
Default Servicing
### Handbook Reference

<table>
<thead>
<tr>
<th>III.A.2.h Early Default Intervention</th>
<th>Policy Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>– iii. Collection Communication Timeline,</td>
<td>Updates Required Early Default Communication</td>
</tr>
<tr>
<td>– vi. Contact Efforts for Delinquent Borrowers</td>
<td>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.</td>
</tr>
<tr>
<td>III.A.2.h.iv. Early Default Intervention</td>
<td>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.</td>
</tr>
<tr>
<td>Handbook Reference</td>
<td>Policy Change</td>
</tr>
<tr>
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</tr>
<tr>
<td>III.A.2.i.iv Loss Mitigation Review – Evaluation of the Borrower’s Financial Condition</td>
<td>Updates Required Documentation and Calculations for Borrower’s Income, Assets, and Hardship</td>
</tr>
<tr>
<td></td>
<td>• Adds Loss Mitigation definitions for Borrower, Continuous Income and Hardship</td>
</tr>
<tr>
<td></td>
<td>• Removes requirement for Mortgagee to review and obtain documentation related to the Borrower’s Living Expenses</td>
</tr>
<tr>
<td></td>
<td>• Advises Mortgagees that the Fannie Mae/Freddie Mac Form 710 may be used to collect the income, asset and hardship documentation</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Question</th>
<th>Decision Point</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Is the Borrower an Owner-Occupant?</td>
<td>Question 2</td>
<td>Informal or Formal Forbearance or Question 9</td>
</tr>
<tr>
<td>2</td>
<td>Has the Borrower experienced a verified loss of income or increase in living expenses?</td>
<td>Question 3</td>
<td>Informal or Formal Forbearance or Foreclosure</td>
</tr>
<tr>
<td>3</td>
<td>Is one or more Borrowers receiving Continuous Income?</td>
<td>Question 4</td>
<td>Special Forbearance-Unemployment</td>
</tr>
<tr>
<td>4</td>
<td>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?</td>
<td>FHA-HAMP Standalone Loan Modification</td>
<td>Question 5</td>
</tr>
<tr>
<td>5</td>
<td>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?</td>
<td>FHA-HAMP Standalone Partial Claim</td>
<td>Question 6</td>
</tr>
<tr>
<td>6</td>
<td>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?</td>
<td>FHA-HAMP Combination Loan Modification and Partial Claim</td>
<td>Question 7</td>
</tr>
<tr>
<td>7</td>
<td>Is the FHA-HAMP Combination Loan Modification and Partial Claim Mortgage Payment at or greater than 40% of current income, and one or more Borrowers are unemployed?</td>
<td>Special Forbearance-Unemployment</td>
<td>Question 8</td>
</tr>
<tr>
<td>8</td>
<td>Has the Borrower been determined ineligible for all Home Retention Options, but has income or other assets to repay the indebtedness within six months?</td>
<td>Formal Forbearance Not to Exceed Six Months</td>
<td>Question 9</td>
</tr>
<tr>
<td>9</td>
<td>Does the Borrower meet the requirements to participate in a Pre-Foreclosure Sale (PFS)?</td>
<td>Streamlined PFS or Standard PFS</td>
<td>Question 10</td>
</tr>
<tr>
<td>10</td>
<td>Does the total outstanding debt remain uncurable and was an attempt made to market the Property under the PFS Program?</td>
<td>Streamlined or Standard Deed-in-Lieu</td>
<td>Foreclosure</td>
</tr>
</tbody>
</table>
Section III.A.2. Default Servicing – Policy Change (cont.)

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.
### 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.)

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.)

<table>
<thead>
<tr>
<th>Handbook Reference</th>
<th>Policy Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>III.A.2.1 Home Disposition Options</td>
<td>Streamlines Requirements for Standard PFS &amp; Standard DIL</td>
</tr>
<tr>
<td>– ii. Pre-Foreclosure Sales (PFS)</td>
<td>• Updated Required Financial Documentation</td>
</tr>
<tr>
<td>– iii. Deed-in-Lieu (DIL)</td>
<td>• Removed the Deficit Income Test</td>
</tr>
<tr>
<td></td>
<td>• Removed the Cash Reserve Contribution Threshold evaluation</td>
</tr>
</tbody>
</table>
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 Mortagee 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.)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>III.A.2.t.i.(E) Foreclosure</strong></td>
<td><strong>Clarifies Policy Regarding Curtailment of Claims &amp; Reasonable Diligence Time Frame Definition</strong></td>
</tr>
<tr>
<td>– Mortgagee Action Before Initiation of Foreclosure</td>
<td>Updated policy reads:</td>
</tr>
<tr>
<td>– Curtailment of Claims</td>
<td>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.</td>
</tr>
</tbody>
</table>

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

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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
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

<table>
<thead>
<tr>
<th>Handbook Reference:</th>
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</table>
| III.A.2. – Servicing of FHA-Insured Mortgages | • III.A.2.e.ii.(A) Partial Payments for Mortgages in Default, Application of Partial Payments Totaling a Full Monthly Payment  
  — Clarified the order in which the Mortgagee must apply Borrower payments  
• III.A.2.e.iii.(A) Partial Payments for Mortgages in Default, Return of Partial Payments  
  — Updated the circumstances when the Mortgagee may return a Partial Payment if the Borrower is participating in an approved Trial Payment Plan  
• III.A.2.h.ii SFDMS Default Reporting  
  — Added Property Vacancy Reporting guidance and clarified requirements for correction of a previously Reported Status Code |
### Section III.A.2. Default Servicing – Minor Updates (cont.)

<table>
<thead>
<tr>
<th>Handbook Reference:</th>
<th>Minor Updates:</th>
</tr>
</thead>
</table>
| III.A.2. – Servicing of FHA-Insured Mortgages (cont.) | **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.)

<table>
<thead>
<tr>
<th>Handbook Reference:</th>
<th>Minor Updates:</th>
</tr>
</thead>
</table>
| III.A.2.k.v – Servicing of FHA-Insured Mortgages, Home Retention Options, FHA-HAMP | • **III.A.2.k.v** FHA HAMP  
  — 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  
  — Moved the FHA-Home Affordable Modification Program (FHA-HAMP) Calculations previously included within this section to: Appendix 4.0  
• **III.A.2.k.v.(F)** FHA-HAMP Partial Claim Provisions  
  — Added Partial Claim Provisions section |
<table>
<thead>
<tr>
<th>Handbook Reference:</th>
<th>Minor Updates:</th>
</tr>
</thead>
</table>
| III.A.2. – Servicing of FHA-Insured Mortgages (cont.) | • III.A.2.k.vi. Non-Incentivized Loan Modification  
  — Updated Definition  
  — Clarified the conditions under which HUD will not pay an Incentive  
  — Added Reporting Deadline for Non-Incentivized Loan Modifications  
• III.A.2.k.vii Loss Mitigation Assumption  
  — Updated Definition  
• III.A.2.l Home Disposition Options  
  — Generally reorganized the PFS and Deed-in-Lieu sections to better align with the industry’s evaluation and execution of the Home Disposition Options |
### Section III.A.2. Default Servicing – Minor Updates (cont.)

<table>
<thead>
<tr>
<th>Handbook Reference:</th>
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</tr>
</thead>
</table>
| III.A.2. – Servicing of FHA-Insured Mortgages (cont.) | • III.A.2.i.ii(l)(6) PFS Marketing Period Previously Initiated Foreclosures  
  — 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  
• III.A.2.n. Presidentially-Declared Major Disaster Areas and III.A.2.o. Presidentially-Declared COVID-19 National Emergency  
  — Moved from Section III.A.3.c-d to include with other Loss Mitigation Options |
### Section III.A.2. Default Servicing – Minor Updates (cont.)

<table>
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</tr>
</thead>
</table>
| III.A.2. – Servicing of FHA-Insured Mortgages (cont.) | • 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.)

<table>
<thead>
<tr>
<th>Handbook Reference:</th>
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</tr>
</thead>
</table>
  — 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

<table>
<thead>
<tr>
<th>Handbook Reference:</th>
<th>Minor Updates:</th>
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<tbody>
<tr>
<td>III.A.3. – Servicing of FHA-Insured Mortgages (cont.)</td>
<td></td>
</tr>
</tbody>
</table>
|  | • **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 |
Online Loss Mitigation Resources

- 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)
## FHA Resource Center

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<th>Option</th>
<th>Point of Contact</th>
<th>Hours Available</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHA Knowledge Base – FAQs</td>
<td><a href="http://www.hud.gov/answers">www.hud.gov/answers</a></td>
<td>24/7/365</td>
<td>Knowledge Base web page includes option to email questions.</td>
</tr>
<tr>
<td>Email</td>
<td><a href="mailto:answers@hud.gov">answers@hud.gov</a></td>
<td>24/7/365</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>1-800-CALL-FHA (1-800-225-5342)</td>
<td>8:00 AM to 8:00 PM Eastern M-F</td>
<td>Voicemail is available after hours or during extended wait periods.</td>
</tr>
</tbody>
</table>

NSC Contact Information

U.S. Department of HUD  
FHA National Servicing Center  
301 NW 6th 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  
• EVARS (general questions only): extensionrequests@hud.gov  
• Training issues: eclass@hud.gov  
• TRS, Data, Default Reporting: sfdatarequests@hud.gov  
• Single Family FHA - Claims Processing: FHA_SFClaims@hud.gov
Thank You!

For joining us today