



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

1 **Date:** XXXX, 2023

2 **Mortgagee Letter** 2023-XX

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

13 **Subject** Payment Supplement Partial Claim

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

16 **Effective Date** The provisions of this ML may be implemented immediately, and must be
17 implemented no later than 180 Days from the Date of Publication of the ML.

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

21 **Public Feedback** To provide feedback on this policy document, please send feedback to
22 sffeedback@hud.gov.

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

Background

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

To that end, this ML establishes a new loss mitigation option, the Payment Supplement Partial Claim (Payment Supplement PC), which will allow Mortgagees to use a Partial Claim to reimburse the Mortgagee for bringing the Mortgage current and temporarily reducing the principal portion of a Borrower's monthly Mortgage Payment, without modifying the Mortgage. The Payment Supplement PC will provide a temporary payment reduction for three to five years, after which the Borrower's principal and interest (P&I) payments will increase back to the full P&I amount. For most Borrowers participating in the Payment Supplement PC, the monthly payment reduction (MoPR) will be reduced by 50 percent in the final year of the Payment Supplement Period, to prepare the Borrower to resume making their full monthly Mortgage payment. As a result, most Borrowers will be responsible for making a larger monthly payment for the final 12 months of the Payment Supplement Period.

The Payment Supplement PC relies on HUD's statutory Partial Claim authority under Section 230 of the National Housing Act. HUD's statutory authority to pay a Partial Claim only allows for Partial Claim Funds to be applied first to any arrearage, and then to principal reduction. As a result, Borrowers in the Payment Supplement PC will have Partial Claim Funds applied to their arrearage, if any, and then monthly to the principal portion of the Borrower's monthly Mortgage payment (unlike traditional Partial Claims). Furthermore, the Payment Supplement PC is evidenced by a zero-interest Partial Claim Note, with a Payment Supplement Agreement rider, secured by a subordinate Partial Claim Mortgage that will not require repayment of the Payment Supplement PC until maturity of the Mortgage, sale or transfer of the Property, payoff of the Mortgage, or the termination of FHA insurance on the Mortgage.

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

This ML:

- updates Responsibility during Transfers of Servicing Rights (III.A.1.b.i);
 - updates SFDMS Default Reporting – Types of Mortgages to Report (III.A.2.h.ii(B)(1));
 - updates Loss Mitigation and Bankruptcy Proceedings (III.A.2.i.viii(A)(1));
 - updates Incentives for COVID-19 Recovery Options (III.A.2.o.iii(B)(5));
 - updates the COVID-19 Recovery Modification – Standard, Step 7 (III.A.2.o.iii(C)(2)(c));
 - adds the Payment Supplement Partial Claim (III.A.2.o.iii(C)(3)); and
 - updates the Claim Types section by adding Claim Type 33 – Payment Supplement Partial Claim (IV.A.2.k).
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15 **FHA Single**
16 **Family Housing**
17 **Policy Handbook**
18 **4000.1**

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

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

(B) Standard

20 **Servicing and**
21 **Loss Mitigation**

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

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

- all servicing actions, including:
 - ensuring resolution of any servicing errors that were, and remain, the responsibility of the Transferor Servicing Mortgagee; and
 - If applicable, accounting of Partial Claim funds related to a Borrower’s Payment Supplement Partial Claim (Payment Supplement PC);
 - obtaining the complete mortgage file, including origination and servicing records;
 - if applicable, complying with the terms and conditions of any agreement for a loss mitigation option; and
 - ensuring that the original Mortgages, mortgage Notes, or deeds of trust are preserved.
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SFDMS Default Reporting – Standard (III.A.2.h.ii(B))

(1) Types of Mortgages to Report

Each month, the Mortgagee must report Default servicing activities for all Mortgages that are 30, 60, and 90 Days or more in Default and all Mortgages in a Payment Supplement Period as part of the Payment Supplement Partial Claim (Payment Supplement PC), as of the last Day of the month.

The Mortgagee must report the status of four classes of Mortgages each month:

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

Loss Mitigation and Bankruptcy Proceedings – Standard (III.A.2.i.viii(A))

(1) Eligibility for Loss Mitigation

The Mortgagee may consider all loss mitigation options, excluding Partial Claims, for those Borrowers who have received a Chapter 7 bankruptcy discharge and did not reaffirm the FHA-insured mortgage debt under applicable law.

For Partial Claims, and for those Borrowers who are currently in bankruptcy, the Mortgagee must ensure that:

- Borrowers obtain the bankruptcy court’s approval to complete the relevant Partial Claim, which includes finalizing the Partial Claim promissory Note, Subordinate Mortgage, and, for the Payment Supplement Partial Claim, the Payment Supplement Agreement;
- the Bankruptcy Court’s approval must allow the Partial Claim promissory Note, Subordinate Mortgage, and Payment Supplement Agreement if applicable, to survive the bankruptcy, without any modification to the promissory Note amount, the secured Subordinate Mortgage lien, and the Payment Supplement Agreement terms if applicable; and

- for Borrowers in Chapter 7 proceedings, the Borrower must reaffirm the FHA-insured Mortgage debt.

Borrowers whose FHA-insured Mortgage is covered by a discharge injunction from a prior bankruptcy proceeding that was not reaffirmed are ineligible for Partial Claims.

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

(6) Incentives for COVID-19 Recovery Options

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

Loss Mitigation Option	Compensation
COVID-19 Advance Loan Modification (ALM)	\$750, plus up to \$250 for reimbursement of title search, endorsement to the title policy, and/or recording fees actually incurred
COVID-19 Recovery Standalone Partial Claim	\$500
COVID-19 Recovery Modification	\$750, plus up to \$250 for reimbursement of title search, endorsement to the title policy, and/or recording fees actually incurred
Payment Supplement PC	\$1,000 (applicable for the initial claim filing only)
COVID-19 PFS	\$1,000
COVID-19 DIL	\$250

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

(2) COVID-19 Recovery Modification

(c) Standard

Step 7 – Target Payment Not Achieved

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

- if the COVID-19 Recovery Modification can achieve a minimum of 20% P&I payment reduction, the Mortgagee must offer the Borrower the COVID-19 Recovery Modification; or
- if the COVID-19 Recovery Modification cannot achieve a minimum of 20% the Mortgagee must review the Borrower for the Payment Supplement Partial Claim.

If available Partial Claim funds are insufficient for a Payment Supplement Partial Claim:

- the Mortgagee must offer the Borrower the lowest monthly P&I payment achieved under the COVID-19 Recovery Modification; or
- if the P&I monthly payment increases under the COVID-19 Recovery Modification and the Borrower has sufficient Partial Claim Funds for a COVID-19 Standalone Partial Claim, the Mortgagee must offer the Borrower the COVID-19 Standalone Partial Claim if the Borrower affirms that they can make the offered payment.

(3) Payment Supplement Partial Claim

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

(a) Definitions

The Payment Supplement Partial Claim (Payment Supplement PC) is a Home Retention Option that funds a Partial Claim to reimburse the Mortgagee for paying the arrearage to bring the Mortgage current, and temporarily paying a portion of principal to reduce the Borrower's monthly Mortgage Payment, without modification of the Mortgage.

The Monthly Principal Reduction (MoPR) is the monthly amount of principal reduction that the Mortgagee will apply to the Borrower's current monthly Mortgage Payment during the Payment Supplement Period.

1 The Payment Supplement Period is a 36 to 60 month period during which
2 the Mortgagee applies the MoPR to reduce the Borrower's monthly
3 Mortgage Payment as specified in the Payment Supplement Agreement.

4 The Payment Supplement Agreement is a rider to the Partial Claim
5 promissory Note executed by the Borrower. It provides the terms and
6 conditions for the Payment Supplement PC, generally, for application of
7 the MoPR, and also includes the Borrower's certifications required for
8 Payment Supplement PC eligibility.

9 **(b) Eligibility**

10 The Mortgagee must ensure that:

- 11 • the Mortgage is a fixed rate Mortgage;
- 12 • there are sufficient Partial Claim funds available to cover arrearages
13 and MoPR equal to a minimum of 5 percent of the P&I portion of
14 the Borrower's monthly Mortgage Payment for a minimum
15 Payment Supplement Period of 36 months;
- 16 • the Borrower meets the requirements for Loss Mitigation and
17 Bankruptcy Proceedings (III.A.2.i.viii);
- 18 • the principal portion of the Borrower's first monthly Mortgage
19 payment after the Mortgage is brought current will be greater than
20 or equal to 5 percent of the Borrower's P&I; and
- 21 • the Borrower indicates they have the ability to make the monthly
22 Mortgage payment under the Payment Supplement Agreement.

23 The Borrower is not eligible for a new Payment Supplement PC until 60
24 months after the date the Borrower executes the Payment Supplement
25 Agreement.

26 **(c) Standard**

27 The Mortgagee may only submit the initial claim for the Payment
28 Supplement PC after the Mortgagee has advanced funds to pay the
29 arrearage to bring the Mortgage current. After filing the initial claim, the
30 Mortgagee may file additional claims only for reimbursement of the funds
31 advanced to pay the MoPR.

32 The Mortgagee must submit an initial claim for the Payment Supplement
33 PC no later than 60 Days from the date of execution of the Payment
34 Supplement Agreement by the Borrower. The initial claim must include:
35 • at a minimum, all arrearages required to bring the Mortgage current
36 at the start of the Payment Supplement Period; and
37 • may include any amounts the Mortgagee has already advanced for
38 the MoPR during the Payment Supplement Period.

1 The maximum Payment Supplement Period is 60 months and the minimum
2 Payment Supplement Period is 36 months. The Payment Supplement
3 Period will be determined by calculating the maximum number of months
4 for which the Borrower has sufficient Partial Claim funds available to fund
5 the MoPR. The Payment Supplement Period must not be extended past the
6 expiration date as specified in the Payment Supplement Agreement.

7 The maximum MoPR is the lesser of the monthly principal payment or a 25
8 percent P&I reduction for 48 months followed by a 12.5 percent P&I
9 reduction for 12 months. The minimum MoPR is a 5 percent P&I reduction
10 for a term of 36 months, without a reduction for the final 12 months.

11 After the Mortgage is brought current, for each month of the Payment
12 Supplement Period, the Mortgagee must only apply the MoPR to the
13 principal owed on the Borrower's Mortgage, and only after the Borrower
14 pays, at a minimum, their portion of the monthly Mortgage Payment, as
15 required in the Payment Supplement Agreement.

16 The Mortgagee must apply the MoPR in accordance with the Payment
17 Supplement Agreement and ensure the MoPR is only applied to the
18 principal portion of the Borrower's monthly Mortgage Payment. The
19 Mortgagee must not recalculate the MoPR during the Payment Supplement
20 Period.

21 The Mortgagee must not charge the Borrower any additional fees or
22 interest for the Payment Supplement PC.

23 To calculate the Payment Supplement PC, the Mortgagee must follow the
24 steps below. No income documentation is required to determine the
25 Borrower's Payment Supplement PC.

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

27 The Mortgagee must determine the maximum amount available for the
28 Payment Supplement PC. The Payment Supplement PC in addition to
29 any other existing Partial Claim must not exceed the Statutory
30 Maximum for Partial Claims (III.A.2.k.v(F)(1)).

31 The Mortgagee must calculate the Statutory Maximum for Partial
32 Claims, and then subtract any previous Partial Claims paid to determine
33 the Partial Claim amount available for the Payment Supplement PC.

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

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

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

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

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

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

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

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

(iv) Step 4 – Calculate Maximum MoPR

Step 4.A

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

Step 4.B

The Mortgagee must determine the maximum MoPR.

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

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(v) Step 5 – Calculate the MoPR for 60 Months

The Mortgagee must determine the amount needed to provide 60 months of the maximum MoPR.

The Mortgagee must multiply the maximum MoPR (calculated in Step 4.B) by 54. (Multiplying by 54 equals MoPR for 48 months at the full amount plus 12 months at 50 percent of the maximum MoPR.)

(vi) Step 6 - Calculate MoPR and Payment Supplement Period

Step 6.A

The Mortgagee must determine if the amount of Partial Claim funds available (calculated in Step 3) is greater than or equal to the maximum MoPR for 60 months (calculated in Step 5).

- If the Borrower has sufficient Partial Claim funds for maximum MoPR for 60 months, the Payment Supplement Period is 60 months, with the maximum MoPR (calculated in Step 4.B) for 48 months and 50 percent of the maximum MoPR for the last 12 months of the Payment Supplement Period.
- If the Borrower does not have sufficient Partial Claim funds for maximum MoPR for 60 months, proceed to Step 6.B.

Step 6.B

If the Borrower does not have sufficient Partial Claim funds available for a maximum MoPR for 60 months (calculated in Step 6.A), the Mortgagee must determine if the Borrower has sufficient Partial Claim funds available to achieve the maximum MoPR for 36 months.

The Mortgagee must divide the amount of Partial Claim funds available (calculated in Step 3) by the maximum MoPR (calculated in Step 4.B). If the resulting number is:

- greater than or equal to 30, proceed to Step 6.C.
- less than 30, proceed to Step 6.D.

(30 equals the MoPR for 24 months at the full amount, plus 12 months at 50 percent of the maximum MoPR, for a 36 month Payment Supplement Period.)

Step 6.C

If the Borrower has sufficient Partial Claim funds to provide at least 36 months of MoPR (calculated in Step 6.B), the Mortgagee must determine the Payment Supplement Period as follows.

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Step 6.C.1

The Mortgagee must calculate the amount of Partial Claim funds required for the final year of the Payment Supplement Period term by dividing the maximum MoPR (calculated in Step 4.B) by 2, and then multiplying that amount by 12.

Step 6.C.2

The Mortgagee must now determine the number of months available for the Borrower to receive the maximum MoPR.

The Mortgagee must subtract the result in 6.C.1 from the Partial funds available for the MoPR (calculated in Step 3) and then divide by the maximum MoPR (calculated in Step 4.B) to determine the number of months the Borrower will receive the maximum MoPR.

Step 6.C.3

The Mortgagee must calculate the full term of the Payment Supplement Period by adding 12 to the number of months calculated in Step 6.C.2.

The Mortgagee must apply the maximum MoPR (calculated in Step 4.B) for the number of months the Borrower can receive the maximum MoPR (calculated in Step 6.C.2) and 50 percent of the maximum MoPR for the final 12 months of the Payment Supplement Period.

Step 6.D

If the amount of Partial Claim funds available is less than the amount needed to provide the maximum MoPR for 36 months (calculated in Step 6.B), the Mortgagee must determine if a MoPR of no less than 5 percent can be achieved for 36 months.

Step 6.D.1

The Mortgagee must divide the amount of Partial Claim funds available (calculated in Step 3) by 36, to determine the MoPR.

Step 6.D.2

The Mortgagee must determine if the MoPR will result in at least a 5 percent reduction or more of the P&I portion of the Borrower's monthly Mortgage Payment for a Payment Supplement Period of 36 months where the MoPR is only applied to principal.

1 If the MoPR (calculated in Step 6.D.1) reduces the P&I portion of
2 the Borrower's monthly Mortgage Payment by a minimum of 5
3 percent, the Payment Supplement Period will be 36 months without
4 a reduction for the final 12 months. The Mortgagee must proceed to
5 Step 7.

6 If the MoPR (calculated in Step 6.D.1) reduces the P&I portion of
7 the Borrower's monthly Mortgage Payment by less than 5 percent
8 the Borrower is ineligible for the Payment Supplement PC and the
9 Mortgagee must offer the Borrower the lowest monthly P&I
10 payment achieved under the COVID-19 Recovery Modification or
11 the COVID-19 Standalone Partial Claim, if available.

12 **(vii) Step 7 – Compare Savings with Available Permanent Home**
13 **Retention Options**

14 If the MoPR (calculated in Step 6.D.1) achieves a minimum of 5
15 percent P&I payment reduction for 36 months, the Mortgagee must
16 compare the Borrower's proposed P&I monthly payment under the
17 Payment Supplement PC with the Borrower's proposed P&I monthly
18 payment under the COVID-19 Recovery Modification to determine the
19 greater payment reduction.

20 If the Borrower is able to achieve a lower monthly Mortgage Payment
21 with the COVID-19 Recovery Modification, the Mortgagee must offer
22 the Borrower the COVID-19 Recovery Modification.

23 If the Borrower is not able to achieve a lower monthly Mortgage
24 Payment utilizing the COVID-19 Recovery Modification, the
25 Mortgagee must provide the Borrower with the options of the Payment
26 Supplement PC or a COVID-19 Recovery Standalone Partial Claim;
27 and:

- 28 • if the Borrower selects the Payment Supplement PC and
29 indicates they have the ability to make the payments as outlined
30 in the Payment Supplement Agreement, the Mortgagee must
31 offer the Borrower the Payment Supplement PC; or
- 32 • if the Borrower selects the COVID-19 Recovery Standalone
33 Partial Claim, the Mortgagee must offer the Borrower that
34 option.

35 The Mortgagee must also provide the Borrower with information on the
36 availability of housing counseling offered by HUD-approved housing
37 counseling agencies.

38 The Mortgagee must document the Servicing File with the COVID-19
39 Recovery options offered to the Borrower.

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(d) Payment Supplement Agreement

(i) Standard

The Mortgagee must prepare a Payment Supplement Agreement that includes the provisions of HUD’s model Payment Supplement Agreement.

The Mortgagee must include and incorporate the Payment Supplement Agreement as a rider to the Partial Claim promissory Note as indicated in the model Partial Claim documents. The Mortgagee must ensure the Partial Claim Agreement is legally enforceable and complies with all state and local requirements.

The Borrower is required to sign and return the Partial Claim promissory Note, with the Payment Supplement Agreement attached as a rider, and the subordinate Mortgage, prior to the Mortgagee’s application of the first MoPR.

(e) Document Delivery Requirements

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

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

Mortgagees may file requests for an additional extension in accordance with [Requests for Extensions of Time for Delivery of Partial Claim Documents](#) (III.A.2.k.v(H)(7)) if a Mortgagee experiences additional delays out of their control, including past the automatic 90-Day extension for the recorded Mortgage.

(f) Required Documentation

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

- documentation of the amount of MoPR applied to the principal balance for each month;
- a copy of the executed Partial Claim promissory Note with the signed Payment Supplement Agreement, attached as a rider, and subordinate Mortgage;
- evidence that the subordinate Mortgage was timely submitted for recording; and

- the date the Mortgagee received the executed Payment Supplement PC documents from the Borrower and the date the subordinate Mortgage was sent to be recorded.

(g) Disclosures to Borrower

(i) Payment Supplement PC Disclosure

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

- information about the Payment Supplement PC, including the accounting of the MoPR funds applied to date;
- the date of expiration of the Payment Supplement Period;
- the P&I payment after the expiration and an explanation that this does not include taxes, insurance, MIP, and any additional escrowed items or special assessments; and
- a statement that FHA's permanent loss mitigation options may be available to the Borrower, for which the Borrower may request review at any point during the Payment Supplement Period.

The Mortgagee may include the disclosure as part of, or with, the monthly billing statement. The disclosure may be sent electronically.

(ii) Disclosure Prior to Expiration of the Payment Supplement PC or Change to MoPR

The Mortgagee must send the Borrower written notice between 60 and 90 Days before:

- the expiration of the Payment Supplement Period; and
- if applicable, the reduction of the MoPR for the final year of the Payment Supplement Period.

The written notice to the Borrower must include information about:

- the expiration of the Payment Supplement Period;
- if applicable, the Borrower's future total monthly Mortgage Payment; and
- a statement that FHA's permanent loss mitigation options may be available to the Borrower, for which the Borrower may request review.

1 **(h) Subsequent Default during Payment Supplement Period**

2 If a Borrower is 30 Days or more past due during the Payment Supplement
3 Period, the Mortgagee must commence [Early Default Intervention](#)
4 (III.A.2.h) and determine the appropriate action below.

5 The appropriate action will determine if:

- 6 • the MoPR will continue to be applied for the remainder of the
7 Payment Supplement Period without changes to the Payment
8 Supplement Agreement; or
- 9 • the Payment Supplement Agreement will be terminated.

10 **(i) Mortgage Reinstatement without Loss Mitigation- MoPR**
11 **Continues**

12 If the Borrower reinstates the Mortgage without the use of a loss
13 mitigation option by making their portion of the missed monthly
14 Mortgage Payments as required in the Payment Supplement Agreement,
15 the MoPR must be applied to the missed payments as they are made.
16 For missed payments, the MoPR must only be applied to the principal
17 portion of the missed Mortgage Payment and for the exact amount that
18 would have been applied for an on-time payment.

19 The MoPR must be applied for the remainder of the Payment
20 Supplement Period as the Borrower makes each required payment.

21 **(ii) Mortgage Reinstatement with COVID-19 Recovery Standalone**
22 **Partial Claim – MoPR Continues**

23 If the Borrower requires a new loss mitigation option to reinstate their
24 Mortgage, the Mortgagee must first evaluate the Borrower for an
25 additional COVID-19 Recovery Standalone Partial Claim to bring the
26 Mortgage current.

27 The Mortgagee must determine the amount of funds needed for the
28 COVID-19 Recovery Standalone Partial Claim by:

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

1 If the Borrower has sufficient additional Partial Claim funds available,
2 the Mortgagee must:

- 3 • ensure the Borrower attests they can resume their portion of the
4 monthly Mortgage Payments under the terms of the Payment
5 Supplement Agreement;
- 6 • ensure all requirements in accordance with a [COVID-19](#)
7 [Recovery Standalone Partial Claim](#) (III.A.2.o.iii(C)(1)) are met;
8 and
- 9 • prepare and send the Borrower the documents for a COVID-19
10 Recovery Standalone Partial Claim to reinstate the Mortgage.

11 Upon receipt of the executed Partial Claim documents from the
12 Borrower, the Mortgagee must advance the funds from the COVID-19
13 Recovery Standalone Partial Claim necessary to reinstate the Mortgage.

14 For missed payments, the MoPR must only be applied to the principal
15 portion of the missed payment and for the exact amount that would
16 have been applied for an on-time payment. After the Mortgage is
17 reinstated, the Mortgagee must resume applying the MoPR in
18 accordance with the Payment Supplement Agreement.

19 The Payment Supplement Period will not be extended beyond the
20 original term set in the Payment Supplement Agreement.

21 **(iii) Mortgage Reinstatement with Additional Loss Mitigation –**
22 **MoPR Terminates**

23 If the Borrower cannot cure the arrearages through an additional
24 standalone Partial Claim, the Mortgagee must:

- 25 • evaluate the Borrower for the available permanent loss
26 mitigation options;
- 27 • terminate the Payment Supplement PC upon receipt of the new
28 executed loss mitigation documents;
- 29 • send the Borrower documentation that the Payment Supplement
30 PC has been terminated and a detailed account of how the
31 Payment Supplement PC was applied;
- 32 • file a claim for all unreimbursed MoPR advances, within 60
33 Days of the early termination of the Payment Supplement
34 Agreement; and
- 35 • report the termination of the Payment Supplement PC through
36 SFDMS.

37 Once the Payment Supplement PC is terminated and the Borrower
38 receives a new Loss Mitigation Option, the MoPR will no longer be
39 applied.

(iv) 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 \(III.A.2.1.ii\)](#);
- not advance MoPR funds on behalf of the Borrower after the Borrower has executed the Approval to Participate (ATP) agreement (form HUD-90045), and must submit a payment request to HUD for all unreimbursed MoPR advances, within 60 Days of the executed ATP;
- provide the Borrower with a disclosure statement including:
 - the Mortgagee will not advance funds to cover the MoPR during the PFS Marketing period;
 - the Payment Supplement Agreement will be terminated at the completion of the PFS;
 - the amount that was used to bring the Mortgage current at the start of the Payment Supplement Period;
 - the total amount applied to MoPR payments; and
 - the amount of individual MoPR payments and the months for which they were applied; and
- ensure the Closing Agent pays off the full amount of the Partial Claim at closing to HUD's Loan Servicing Contractor.

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

In addition to the requirements for DIL, foreclosures, and CWCOT the Mortgagee must request payment from HUD for all unreimbursed MoPR advances, within 60 Days of the date the sales is completed or the deed is transferred, and prior to filing the termination claim.

(i) Termination of the Payment Supplement Agreement

(i) Completion of the Payment Supplement Period

If the Borrower makes their portion of the monthly Mortgage Payment as required in the Payment Supplement Agreement for the duration of the Payment Supplement Period, the Payment Supplement Period will

1 end after no more than 60 months, as outlined in the Payment
2 Supplement Agreement.

3 The Mortgagee must file a claim for all unreimbursed MoPR advances
4 no later than 60 Days after the date of termination of the Payment
5 Supplement Agreement.

6 **(ii) Early Termination of the Payment Supplement Agreement**

7 **(a) Voluntary Termination Request**

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

13 The Mortgagee must file a claim for all unreimbursed MoPR advances,
14 no later than 60 Days after the date of termination of the Payment
15 Supplement Agreement.

16 **(b) Loss Mitigation Action Completed**

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

20 **(c) Foreclosure and CWCOT**

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

23 **(d) Property Transfer or Assumption**

24 The Payment Supplement Agreement is non-transferrable and not
25 assignable to a new Borrower. The Mortgagee must:

- 26 • terminate the Payment Supplement Agreement if the Borrower
27 no longer owns the Property due to transfer or assumption of the
28 Mortgage; and
- 29 • file for payment of any unreimbursed MoPR advanced, within
30 60 Days of the termination of the Payment Supplement
31 Agreement.

32 **(e) Sale (non-PFS)**

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

1 Borrower a disclosure statement about the accounting of the Payment
2 Supplement PC, including:

- 3 • the amount that was used to bring the Mortgage current at the
4 start of the Payment Supplement Period; and
- 5 • the total amount applied to MoPR payments, including the
6 amount of individual MoPR payments and the months for which
7 they were applied.

8 The Mortgagee must include, as part of any payoff statement for the
9 first Mortgage requested by the borrower, any amounts advanced for
10 the Payment Supplement PC by the Mortgagee but not yet paid by
11 HUD.

12 **(f) Refinance**

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

- 15 • For a Standard Refinance or a Cash-Out Refinance:
16 provide the Borrower a disclosure statement about the
17 accounting of the Payment Supplement PC, including:
 - 18 ○ the amount that was used to bring the Mortgage current at
19 the start of the Payment Supplement Period; and
 - 20 ○ the total amount applied to MoPR payments including the
21 amount of individual MoPR payments and the months for
22 which they were applied.
- 23 • For a Streamlined Refinance, obtain approval from HUD's Loan
24 Servicing Contractor to resubordinate the Borrower's Partial
25 Claim under the refinanced Mortgage and provide the Borrower
26 a disclosure statement about the accounting of the Payment
27 Supplement PC, including:
 - 28 ○ the amount that was used to bring the Mortgage current at
29 the start of the Payment Supplement Period; and
 - 30 ○ the total amount applied to MoPR payments, including the
31 amount of individual MoPR payments and the months for
32 which they were applied.

33 The Mortgagee must include, as part of any payoff statement for the
34 first Mortgage requested by the Borrower, any amounts advanced for
35 the Payment Supplement PC by the Mortgagee but not yet reimbursed
36 by HUD.

37 **(j) Reporting to HUD**

38 The Mortgagee must report the use of a Payment Supplement PC in
39 SFDMS, using Default Status Code 51 – Payment Supplement Partial
40 Claim Started.

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

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

- 8 • If occupancy is not required to be determined, the Mortgagee must
9 report Occupancy Status Code 8 - Occupancy Determination Not
10 Required.
- 11 • The Mortgagee must not report DDS Code 20 or 98 if the Payment
12 Supplement Agreement is still in effect for the duration of the
13 Payment Supplement Period.

14 After the expiration of the Payment Supplement Period, the Mortgagee
15 must report:

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

18 **(i) Voluntary Termination**

19 If the Borrower requests to terminate the Payment Supplement
20 Agreement and affirms they can resume their full monthly Mortgage
21 Payment, or if the Borrower completes the entire term of the Payment
22 Supplement Agreement and resumes making their full Mortgage
23 Payment, the Mortgagee must report DDS Code 98.

24 **(ii) Subsequent Default**

25 For every month the Borrower does not make their required payment
26 under the terms of the Payment Supplement Agreement, the Mortgagee
27 must report DDS Code 51 with the applicable oldest unpaid installment
28 date indicating that the Mortgage is past due. The Mortgagee must
29 report the applicable Occupancy Status Code and Occupancy Status
30 Date based on the most recent occupancy determination.

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

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a. Standalone Partial Claim after Subsequent Default

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

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

b. Other Loss Mitigation Options after Subsequent Default

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

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

c. Option Failure

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

(iii) Sale, Refinance, or Other Mortgage Termination

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

1 **FHA Single**
2 **Family Housing**
3 **Policy Handbook**
4 **4000.1**

Claim Types (IV.A.2)

6 **Claims and**
7 **Disposition**

k. Claim Type 33*- Payment Supplement Partial Claim**

The Mortgagee may file a claim for a Payment Supplement Partial Claim (Payment Supplement PC) incentive and insurance benefits for a Payment Supplement PC under Claim Type 33*** after the Mortgage is brought current. The Mortgagee may include in its claim the accumulated arrearages and any Monthly Principal Reduction (MoPR) already advanced and applied to the principal portion of the Borrower's monthly Mortgage Payment under the [Payment Supplement Partial Claim](#).

HUD will pay the Mortgagee a one-time financial incentive of \$1,000 for the use of a Payment Supplement PC in compliance with all regulatory requirements and procedures relating to the submission of incentive claims.

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

1 **Paperwork**
2 **Reduction Act**

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

1 **Signature**

Julia R. Gordon
Assistant Secretary for Housing -
FHA Commissioner