



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

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

July 7, 2011

MORTGAGEE LETTER 2011-23

TO: ALL APPROVED MORTGAGEES

ATTENTION: Single Family Servicing Managers

SUBJECT: Unemployment Special Forbearance: Temporary Program Changes and Clarifications

The purpose of this Mortgagee Letter is to temporarily amend the Type I special forbearance program as it pertains to unemployed borrowers. This Mortgagee Letter is effective on August 1, 2011, and expires two years from the effective date of the Mortgagee Letter. On the expiration date, all guidelines pertaining to special forbearances revert to those described in Mortgagee Letters (MLs) 2000-05 and 2002-17.

In ML-2000-05, FHA provided mortgagees with additional guidance concerning the Loss Mitigation Program that all mortgagees must follow, when applicable, to reduce FHA insurance losses in those circumstances, as determined by the mortgagee, where delinquent mortgagors might be able to find an alternative to foreclosure. ML 2002-17 amended ML 2000-05 to allow mortgagees to offer forbearance to unemployed mortgagors with good payment records and stable employment histories, even when mortgagees are not able to determine whether the special forbearance will lead to reinstatement of the loan. This Mortgagee Letter amends ML 2002-17 as follows:

- Removes the requirement that the mortgagee verify that the mortgagor has a good payment record and stable employment history.
- Extends the minimum forbearance period to twelve months.

In addition, this Mortgagee Letter reemphasizes the requirement in ML 2000-05 that mortgagees conduct a review at the end of the forbearance period to evaluate the mortgagor for all applicable loss mitigation programs, and notify the mortgagor in writing whether or not he/she qualifies for a loss mitigation option. If the mortgagor does not qualify for any loss mitigation option, the mortgagee must provide the mortgagor with the reason for denial and allow the mortgagor at least seven calendar days to submit additional information that may impact upon the mortgagee's evaluation. Reasons for denial could include, but are not limited to: (1) the delinquency exceeds 12 months worth of Principal, Interest, Taxes and Insurance (PITI) installments; (2) the mortgagor is unable to make a partial payment; and/or (3) the mortgagor is determined to be better suited for an alternative loss mitigation option.

Termination of the Type I Special Forbearance Agreement for Unemployed Borrowers

The forbearance plan will continue to its end point unless one of the following conditions occurs:

- The mortgagor abandons the property.
- The mortgagor advises the mortgagee he/she is no longer going to seek employment and/or will not honor the terms of the forbearance agreement.
- The mortgagor allows forbearance payments to become 60 days past due and unpaid.
- The mortgagor finds a job and the loan is reinstated.

Appendix A details the instructions for applying the amended Type I special forbearance for unemployed borrowers.

Any questions regarding this Mortgagee Letter may be directed to HUD's National Servicing Center at (888) 297-8685 or hsg-lossmit@hud.gov. Persons with hearing or speech impairments may reach this number via TDD/TTY by calling (877) TDD-2HUD (1-877-833-2483).

Sincerely,

Robert C. Ryan
Acting Assistant Secretary for Housing-
Federal Housing Commissioner

Attachment

Appendix A**Instructions for Applying the Amended Type I Special Forbearance for Unemployed Borrowers**

FHA guidance, as explained in ML 2000-05, ML 2002-17, and this Mortgagee Letter requires mortgagees to follow the steps below when dealing with unemployed mortgagors unable to make their mortgage payments:

1. In accordance with ML 2000-05, section H, before considering a mortgagor for any loss mitigation option, a mortgagee must begin by performing a financial analysis to determine the mortgagor's ability to meet the monthly mortgage obligation.
2. The mortgagee will then consider loss mitigation options according to the Option Priority described in ML 2000-05, beginning with special forbearance. If the mortgagor can document unemployment, is actively seeking employment, and is having difficulty making mortgage payments as shown by the financial analysis, then the mortgagor will qualify for special forbearance. At this point, the mortgagee will not be required to analyze good payment record or stable employment history prior to offering forbearance. This guidance differs from the guidance offered in ML 2002-17, in the section titled "Special Provisions for Type 1 when the cause of Default is Unemployment."
3. The mortgagee may still evaluate the mortgagor for the other loss mitigation options, including a loan modification, and can offer these options instead of forbearance if, in the mortgagee's best business judgment, these options are superior to forbearance. In this case the mortgagee must document why forbearance was not the best option.
4. If the mortgagor qualifies for forbearance, the financial analysis required by ML 2000-05, section H, will facilitate the determination of the mortgagor's required monthly payment.
5. The mortgagee must now offer forbearance for a minimum of twelve (12) months. This differs from guidance offered in ML 2002-17, which requires a minimum duration of four months. There is no maximum forbearance period; however, as stated in Mortgagee Letter 2002-17, the total delinquency cannot exceed twelve (12) months worth of Principal, Interest, Taxes and Insurance (PITI) installments.
6. As stated in ML 2000-05 and ML 2002-17, during the forbearance period, the mortgagee must perform a monthly evaluation, verifying the mortgagor's employment status and certifying that the mortgagor is making payments as scheduled. The forbearance plan will continue to its end point unless one of the following conditions occurs:
 - a. The mortgagor abandons the property.
 - b. The mortgagor advises the mortgagee he/she is no longer going to seek employment and/or will not honor the terms of the forbearance agreement.
 - c. The mortgagor allows forbearance payments to become 60 days past due and unpaid.

- d. The mortgagor finds a job and the loan is reinstated.
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- 7. During the month in which the initial forbearance plan expires, the mortgagee is required to consider the mortgagor for extended forbearance beyond the initial period. If the review proves that the mortgagor qualifies per FHA's guidance, the mortgagee will provide extended forbearance for a period of one month or longer. If the review leads the mortgagee to determine that another approved FHA loss mitigation option is more appropriate, the mortgagee will be required to document why extended forbearance was not the most suitable option. The mortgagee must also notify the mortgagor in writing of this decision and advise the mortgagor that he/she may submit additional information within seven days that may impact the mortgagee's decision.
 - 8. Such reviews must continue at the end of each extended forbearance period under the same guidelines.
 - 9. This Mortgagee Letter shall remain in effect until 2 years from the Effective Date of this Mortgagee Letter.