

Appendix C

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Case Study #1

Synopsis of the Situation

Oldest Unpaid Installment -- 5/93

Date of Default -- 6/93

The lender notified Mr. Smith and Ms. Jones that it intends to foreclose on their mortgage. Mr. Smith and Ms. Jones jointly own a home with a FHA-insured mortgage. The couple has lived in this home for six years. They have missed three full mortgage payments. They own no other real property.

Mr. Smith voluntarily resigned from his position as a restaurant manager in August 1993. Prior to resigning, Mr. Smith badly cut his hand on a meat slicer. He filed a workers compensation claim because he alleged the injury was work-related. Although the injury occurred on the restaurant premises, it was not directly related to Mr. Smith's job and it did not keep him from performing his duties as restaurant manager. His workers' compensation claim was denied because the injury did not affect Mr. Smith's ability to manage restaurants. The claim is currently inactive.

Ms. Jones is currently the only source of income for the household. Her income is not enough to cover the mortgage payments of \$850.00 per month.

Mr. Smith and Ms. Jones claim that their difficulty resulted from unanticipated expenses incurred prior to the date of default including:

- o Traffic fines - not yet paid
- o Automobile repair costs - 1/93
- o Outstanding credit obligations - paid off in 5/93

The car repairs required a significant amount of the couple's savings and cut into their monthly disposable income. The couple reports that Ms. Jones' mother surrendered two certificates of deposit to help them make the February, March, and April mortgage payments.

Documentation Provided

- o Copy of Ms. Jones' 1991 tax return. She did not provide a 1992 tax return.
- o Copy of Ms. Jones' last two paycheck stubs
- o Verification of Employment (VOE) dated 9/15/93 for Ms. Jones. She receives a 3% salary increase annually with acceptable performance.
- o VOE dated 9/21/93 from Mr. Smith's previous employer. His gross salary was \$1,500.00 per month.
- o Copy of money order for \$600 paid to VISA 2/8/93

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These case studies are designed to illustrate situations that may occur in processing assignment application cases. Each case should be evaluated on its own merit.

1 of 1503/95

4330.2 REV-2

Appendix C

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- o Copies of the surrendered certificates of deposits and checks made out to Mr. Smith and Ms. Jones from Ms. Jones' mother
- o Copy of canceled checks dated 5/3/93 and 5/24/93 made out for department store credit cards. The checks were made out for \$400.00 and \$600.00, respectively.
- o Copy of printout from county clerk showing traffic violation occurred on 6/25/93, but has not been paid
- o Notes from telephone conversation between the Field Office and a case worker at the unemployment agency. The unemployment agency case worker reported that Mr. Smith has rejected two jobs for which they sent him to interview.

Analysis

Criterion One: Notification of Intent to Foreclose -- This criterion is met. The lender has notified the borrowers that it intends to foreclose on the mortgage.

Criterion Two: Three Unpaid Installments -- This criterion is met. The borrowers have missed three monthly installments.

Criterion Three: Principal Residence -- This criterion is met. The borrowers have lived in this residence for six years.

Criterion Four: No Other FHA-insured or Secretary-held Mortgage -- This criterion is met. The homeowners own no other property.

Criterion Five: Circumstances -- This criterion is not met. Mr. Smith's voluntary termination occurred after default and cannot be considered a circumstance that led to the default.

Mr. Smith's difficulty in attaining worker's compensation benefits cannot be considered a factor for default. First, he applied for worker's compensation benefits after the first payment was missed. Second, the reason for Mr. Smith's claim not being approved is unclear.

The fines cannot be considered as contributing to default. Traffic violations do not constitute a circumstance beyond the applicants' control.

Also documentation provided shows that Mr. Smith and Ms. Jones decided to pay credit card obligations while ignoring mortgage payments. The amount

of the credit card payments combined with Ms. Jones' income would have covered the mortgage payments.

HUD concludes that the default is due to a lack of financial priorities and not circumstances beyond the applicants' control. Importantly, the traffic fines have not been paid yet.

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03/95

2 of 15

4330.2 REV-2

Appendix C

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Criterion Six: Reasonable Prospects -- This criterion is not met. Generally, if the borrowers document a history of gainful employment, it may be reasonable to assume that their financial difficulties are temporary. Mr. Smith's rejection of two jobs does not indicate that he is actively looking for work or that he plans to look. Ms. Jones' projected income is not sufficient to meet the mortgage obligations.

Final Resolution

Applicants for assignment must meet all six criteria. Mr. Smith and Ms. Jones did not meet criteria five and six. Therefore, they are not eligible for assignment at this time. During the appeal, they would need to provide additional documentation related to criteria five and six. For example, Mr. Smith might provide copies of letters or notarized affidavits from organizations with which he has interviewed for employment.

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3 of 1503/95

4330.2 REV-2

Appendix C

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## Case Study #2

Synopsis of the Situation

Oldest Unpaid Installment -- 7/94

Date of Default -- 8/94

Mr. and Mrs. Brown are facing foreclosure on the mortgage for one of two homes they own jointly. The mortgage in default is FHA-insured. The mortgage on their other property is privately insured. The property in default is not their principal place of residence. Mr. and Mrs. Brown rent the property with the FHA-insured mortgage to Mrs. Brown's 72 year old mother. The rent is used to make part of the mortgage payment.

The lender notified Mr. and Mrs. Brown of its intent to foreclose after the couple missed three full mortgage payments. The borrowers have no prior history of problems making the mortgage payment. Mr. and Mrs. Brown have maintained the two properties for over thirteen years.

Documentation provided

- o Doctor's letter dated 4/23/94 showing that Mrs. Brown was suffering from a medical condition. The letter prescribed bed rest for Mrs. Brown until the condition is cured. The prognosis is for full recovery within eight months.

- oCopy of Mr. Brown's last two paychecks. Mr. Brown's income is only enough to cover the privately held mortgage for the residence in which they live.

- oWritten statement from the couple claiming that Mrs. Brown does not have disability insurance

- oVerification of Employment (VOE) dated 6/94 for Mrs. Brown. Shows that Mrs. Brown is on an extended leave without pay.

- oCopy of thirty-day notice indicating intent to vacate from Mr. and Mrs. Brown's tenant dated 3/15/94

- oCopy of sample tenant rent receipts showing that rental income covers only 75% of the mortgage amount

- oDocumentation from Mrs. Brown's mother's doctor that indicates the older woman broke her hip and needs temporary full-time in home nursing care

- oReceipts from the nursing agency

- oCopies of rent receipts

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## Analysis

Criterion One: Notification of Intent to Foreclose -- This criterion is met. The lender has notified the homeowner that it intends to foreclose on the mortgage.

Criterion Two: Three Unpaid Installments -- This criterion is met. Three monthly installments have not been paid.

Criterion Three: Principal Residence -- This criterion is not met. The property in default is not the homeowners' principal residence. HUD may waive this criterion since the rental income from this property is applied to the mortgage debt.

Criterion Four: No Other FHA-insured or Secretary-held Mortgage -- This criterion is met. The homeowners have no other FHA-insured mortgage.

Criterion Five: Circumstances -- This criterion is met. The default was due to an illness. Medical conditions are beyond the borrower's control and the medical condition occurred prior to the date of default. In fact, Mrs. Brown's prognosis suggests that she can return to work four months after the date of default.

Criterion Six: Reasonable Prospects -- This criterion is met. The medical condition is temporary. The borrowers can be expected to resume full mortgage payments in the future.

## Final Resolution

Applicants for assignment must meet all six criteria. Mr. and Mrs. Brown have not met criterion three. Since the rental income from this property is applied to the mortgage, criterion three can be waived. They have met all other criteria. Therefore, HUD may accept Mr. and Mrs. Brown for assignment.

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5 of 1503/95

4330.2 REV-2

## Appendix C

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### Case Study #3

#### Synopsis of Situation

Oldest Unpaid Installment -- 7/1/93

Date of Default -- 8/1/93

The lender has notified Ms. Green that it plans to foreclose on her

FHA-insured mortgage. She paid less than half the mortgage debt for two months and then missed two monthly payments completely.

Ms. Green was terminated from her job as a bookkeeping clerk in January 1993. She was terminated for unexcused absences. Ms. Green claimed that her father's poor health affected her attendance at work. On March 8, 1993, she assumed a non-qualifying FHA-insured mortgage. She moved into the home on April 1, 1993. Apparently she lived off savings until she defaulted on the loan.

#### Documentation Provided

- oCopy of notice showing intent to break lease. The notice was dated 3/1/93.

- oEvidence of \$117 in monthly food stamps

- oCopy of test admission notice dated 3/30/93 for temporary employment agency. No documentation was provided to show that she actually took the test.

#### Analysis

Criterion One: Notification of Intent to Foreclose -- This criterion is met. The lender has notified the homeowner that it intends to foreclose on the mortgage.

Criterion Two: Three Unpaid Installments -- This criterion is met. At least three monthly installments have not been paid.

Criterion Three: Principal Residence -- This criterion is met. The homeowner lives in the home with a FHA-insured mortgage.

Criterion Four: No Other FHA-insured or Secretary-held Mortgage -- This criterion is met. The homeowner owns no other property.

Criterion Five: Circumstances -- This criterion has not been met. Ms. Green chose to assume a loan when she was unemployed and had only enough savings to maintain her mortgage from March to July. This is not considered a circumstance beyond her control. No evidence was provided to show that her father's illness affected her ability to make her monthly payments or influenced her attendance at work.

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Criterion Six: Reasonable Prospects -- This criterion has not been met. Ms. Green did not provide any documentation to show that she was actively seeking employment. HUD could not verify a history of gainful employment. She was trying to get temporary employment, but provided no evidence that she had been successful. HUD has no evidence of projected income. Based on the available information, HUD cannot assume that she will be able to make her mortgage payments in the future.

#### Final Resolution

Applicants for assignment must meet all six criteria. Ms. Green did not meet criteria five and six. Therefore, she is not eligible for assignment at this time. During the appeal, she would need to provide additional documentation related to criteria five and six.

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7 of 1503/95

4330.2 REV-2

#### Appendix C

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#### Case Study #4

##### Synopsis of the Situation

Oldest Unpaid Installment -- 11/1/93

Date of Default -- 12/1/93

Mr. and Mrs. Edwards live in a home with a FHA-insured mortgage. They own no other real property. The lender notified them that it intends to foreclose on their mortgage.

After missing three full mortgage payments, Mr. and Mrs. Edwards received an anniversary gift of \$400 from a relative on 4/1/94. The lender accepted payment towards one month's delinquency on 4/8/94. Their mortgage payment is \$350.00/month.

Mr. Edwards was terminated from his job as a mechanic in November 1993. Mr. Edwards was terminated because he missed five consecutive workdays and never contacted his employer to explain. He applied for and was denied unemployment benefits. He then appealed the decision and was determined ineligible.

In January, Mr. Edwards got two jobs. Mrs. Edwards is currently employed. Their income is sufficient to make the monthly mortgage payments.

##### Documentation Provided

oVerification of Employment (VOE) dated 4/7/94 from Septic Repairs, for

Mr. Edwards. No VOE was provided from Mr. Edwards' second job.

oStatement dated 4/6/94 from Mr. Edwards' previous job at Joe's Car Dealership. The statement confirmed that he was terminated for unexplained absences.

oVOE dated 3/16/94 and statement of projected income dated 4/3/94 from Mrs. Edwards' employer

oCopy of sample stubs from Mrs. Edwards' payroll checks from 11/93 to 2/94

oChild care statement showing \$200 in monthly child care costs

oCopy of Mrs. Edwards' 1993 W-2 form

oRequest for food stamps dated 12/15/93

oCopy of bank statement showing a deposit of \$400 on 4/2/94. On 4/5/94, \$350 was withdrawn.

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03/95

8 of 15

4330.2 REV-2

Appendix C

---

#### Analysis

Criterion One: Notification of Intent to Foreclose -- This criterion is met. The lender has notified the homeowners that it intends to foreclose on the mortgage.

Criterion Two: Three Unpaid Installments -- This criterion is met. Although the homeowners made a payment on 4/8/94, they still owed mortgage payments from December through April. The payment made on 4/8/94 was applied to the November installment. The mortgage remained at least three payments delinquent. Therefore, the lender was still able to foreclose.

Because the oldest unpaid installment is dated November 1, 1993, the date of default must be December 1, 1993. For the purposes of the assignment review, the date of default was established in January (after the third unpaid installment). Application of a partial payment does not advance the date of default.

Criterion Three: Principal Residence -- This criterion is met. The homeowners have lived in this residence for six years.

Criterion Four: No Other FHA-insured or Secretary-held Mortgage -- This criterion is met. The homeowners own no other property.



Criterion Five: Circumstances -- This criterion is not met. The default is directly attributable to Mr. Edwards' loss of employment. His termination was not beyond his control. This analysis is supported by the fact that he was not approved for unemployment benefits and the statement from his previous employer which stated the specific reasons for his dismissal.

Criterion Six: Reasonable Prospects -- This criterion is met. Given the documented salary only, Mr. and Mrs. Edwards' projected combined income is adequate to meet their monthly obligations.

#### Final Resolution

Applicants for assignment must meet all six criteria. Mr. and Mrs. Edwards did not meet criterion five. Therefore, they are not eligible for assignment at this time. During the appeal, they would need to provide additional documentation related to criterion five.

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9 of 1503/95

4330.2 REV-2

#### Appendix C

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#### Case Study #5

##### Synopsis of the Situation

Oldest Unpaid Installment -- 3/94

Date of Default -- 4/94

The lender notified Mr. and Mrs. Duly that it intends to foreclose on their mortgage. The couple owns a home with a FHA-insured mortgage. They have missed three full mortgage payments. They own no other real property.

Mrs. Duly is a 24 year old housewife with four children. Her children range in age from six months to five years. She has never worked. Mr. Duly was convicted in January 1994 of physically abusing Mrs. Duly. He was sentenced to ten years in prison. While in prison, Mr. Duly receives no income. Mrs. Duly wants to file for bankruptcy. The mortgage payment is \$800.

##### Documentation Provided

oCopy of the couple's joint tax return from 1992 and 1993. The returns indicate that Mr. Duly was the sole source of income for the family.

oCopy of police reports to show that they were called to the Duly

residence monthly over a one year period. Mr. Duly is now in jail.

oDocumentation of 18 hours of college credit for Mrs. Duly. The documentation was dated 6/93. The documentation did not specify what career she was pursuing.

oCopy of Aid to Families with Dependent Children/AFDC (welfare) checks from March 1994 and April 1994. Mrs. Duly received \$450 per month.

#### Analysis

Criterion One: Notification of Intent to Foreclose -- This criterion is met. The lender has notified the homeowners that it intends to foreclose on the mortgage.

Criterion Two: Three Unpaid Installments -- This criterion is met. The homeowners have missed three monthly installments.

Criterion Three: Principal Residence -- This criterion is met. The homeowners live in the home with a FHA-insured mortgage.

Criterion Four: No Other FHA-insured or Secretary-held Mortgage -- This criterion is met. The homeowners own no other property.

Criterion Five: Circumstances -- This criterion is met. The default is directly attributable to a loss of income due to a marital separation. Mrs. Duly is applying on her own. The separation qualifies as a

circumstance beyond her control. The police reports are sufficient to document this.

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03/95

10 of 15

4330.2 REV-2

#### Appendix C

---

Criterion Six: Reasonable Prospects -- This criterion is not met. Mrs. Duly has never worked. She provided no evidence that she is making arrangements to meet her mortgage obligations. She documented no prospects for employment or job training. Mr. Duly will not be eligible for parole until after 36 months.

#### Final Resolution

Applicants for assignment must meet all six criteria. Mrs. Duly did not meet criterion six. Therefore, she is not eligible for assignment at this time. During the appeal, she would need to provide additional documentation related to criterion six.

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11 of 1503/95

4330.2 REV-2

Appendix C

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#### Case Study #6

##### Synopsis of the Situation

Oldest Unpaid Installment -- 1/94

Date of Default -- 2/94

Mr. Sita has marital problems. He moved out of his home with a FHA-insured mortgage in December 1993. Mrs. Sita obtained a restraining order on January 2, 1994. Mrs. Sita then stopped payment on the mortgage checks for January 1994 and February 1994. On March 30, 1994, Mrs. Sita filed for divorce. By this time, three full mortgage payments had been missed. Mr. Sita did not know that Mrs. Sita had not made the mortgage payments after he left the property.

Mr. Sita was awarded the property in the divorce settlement dated April 15, 1994. The lender notified Mr. Sita of its intention to foreclose on his mortgage. Mr. Sita owns no other property.

##### Documentation Provided

oDivorce settlement dated April 15, 1994. Documents that Mr. Sita was awarded the home.

oVerification of Employment (VOE) dated April 2, 1994 for Mr. Sita

oCopy of Mr. Sita's last two paycheck stubs

oCopy of Mr. Sita's driver's license. The property in question was listed as his home address.

oCopy of Mr. Sita's 1993 tax return. Shows that Mr. Sita's income is sufficient to cover the mortgage payments.

##### Analysis

Criterion One: Notification of Intent to Foreclose -- This criterion is met. The lender has notified the homeowners that it intends to foreclose on the mortgage.

Criterion Two: Three Unpaid Installments -- This criterion is met. Three monthly installments have not been paid.

Criterion Three: Principal Residence -- This criterion is not met. The

property in default was not the homeowner's principal residence at the date of default or assignment review. However, Mr. Sita has:

oReasonably explained why the home was not his principal residence at the time of default or assignment review

oEstablished that the property had been his principal residence (driver's license)

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03/95

12 of 15

4330.2 REV-2

Appendix C

---

oProvided proof that he had been awarded the house in the divorce settlement

Consequently, HUD can waive this criterion.

Criterion Four: No Other FHA-insured or Secretary-held Mortgage -- This criterion is met. The homeowners own no other property.

Criterion Five: Circumstances -- This criterion is met. The date of default corresponds with Mr. Sita's departure from the residence. Additionally, Mr. Sita was not aware that his ex-wife was not making the mortgage payments.

Criterion Six: Reasonable Prospects -- This criterion is met. Mr. Sita's projected income is more than adequate to meet his monthly obligations.

Final Resolution

Applicants for assignment must meet all six criteria. Although, Mr. Sita does not meet criterion three, he has presented appropriate evidence to support waiving this criterion. He has met all other criteria. Therefore, HUD may accept Mr. Sita for assignment.

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13 of 1503/95

4330.2 REV-2

Appendix C

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## Case Study #7

### Synopsis of Situation

Oldest Unpaid Installment -- 4/94

Date of Default -- 5/94

The lender notified Mr. and Mrs. James that it intends to foreclose on their FHA-insured mortgage. The home is the couple's principal residence and only property. The lender accepted less than half of the mortgage payments for six months, but could do this no longer.

Mr. James is suffering with a terminal illness. The prognosis is long-term disability. He has not worked since October 1993. He will not be able to return to work. His medical insurance has covered the majority of his health care costs. He does not have disability or life insurance. The only form of assistance for which Mr. James qualifies is SSI.

Mrs. James' income is not enough to cover the mortgage. They have lived primarily off their savings since October 1993. Additionally, she has had to reduce her work hours to meet her husband's home health care needs.

### Documentation Provided

oSample copies of Mrs. James' paycheck stubs from December 1993 to May 1994. The pay stubs show that her income has decreased due to shorter hours at work. They also indicate that her hourly wage is insufficient to meet the mortgage obligations, regardless of her number of hours worked.

oCopy of Mr. James' request for extended leave without pay from Mac Ogden Plumbing dated October 1993. His terminal illness was his reason for leaving.

oCopy of medical receipts from 8/93 to 3/94 show increasing out-of-pocket medical expenses

oApplication for food stamps dated 1/25/94

oDoctor's letter dated 2/16/94 indicating that Mr. James suffers from a terminal illness

oThe Social Security Administration indicated to the lender that his benefits would be approximately \$200 per month

### Analysis

Criterion One: Notification of Intent to Foreclose -- This criterion is met. The lender has notified the homeowners that it intends to foreclose on their mortgage.

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4330.2 REV-2

Appendix C

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Criterion Two: Three Unpaid Installments -- This criterion is met. The homeowners have missed the equivalent of three monthly installments.

Criterion Three: Principal Residence -- This criterion is met. The homeowners live in the home.

Criterion Four: No Other FHA-insured or Secretary-held Mortgage -- This criterion is met. The homeowners own no other property.

Criterion Five: Circumstances -- This criterion is met. Although, the couple's problems started months before the date of default, it is evident that Mr. James' terminal illness has affected the couple's ability to meet their mortgage obligations. Medical conditions are beyond the borrower's control.

Criterion Six: Reasonable Prospects -- This criterion is not met. Mrs. James is currently the sole income earner for the family. The SSI benefits plus Mrs. James' projected earnings will not be enough to cover the mortgage payments. Based on the available information, HUD cannot assume that her hourly wage will increase in the future. She would meet this criterion if she could show that either:

oMr. James would be able to work from home to supplement the family income and meet the mortgage obligations, or

oShe could supplement her current income in the future to meet her mortgage obligations.

## Final Resolution

Applicants for assignment must meet all six criteria. Mr. and Mrs. James did not meet criterion six. Therefore, they are not eligible for assignment at this time. During the appeal, they would need to provide additional documentation related to criteria five and six.

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