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II. TITLE II INSURED HOUSING PROGRAMS FORWARD MORTGAGES

B. SERVICING

This section provides the standards and procedures applicable to the servicing of all single family (one to four units) mortgages insured under Title II of the National Housing Act, except for Home Equity Conversion Mortgages (HECM). The mortgagee must fully comply with all of the following standards and procedures when servicing a mortgage insured by the Federal Housing Administration (FHA). If there are any exceptions or program-specific standards or procedures that differ from those set forth below, the exceptions or alternative program-specific standards and procedures are explicitly stated. Terms and acronyms used in this FHA Single Family Housing Policy Handbook (SF Handbook) have the meanings defined in the Glossary and Acronym sections or in the specific section of the SF Handbook in which the definitions are located.

1. Servicing of FHA-Insured Mortgages

Only FHA-approved mortgagees may service FHA-insured mortgages. Mortgagees may service loans they hold or that are held by other FHA-approved mortgagees.

a. Servicing Responsibility

i. Definition

A servicer is an FHA-approved mortgagee performing servicing actions on FHA-insured mortgages on its behalf or on behalf of or at the direction of another FHA-approved mortgagee.

The Transferor Servicing Mortgagee is the mortgagee that transfers servicing responsibilities.

The Transferee Servicing Mortgagee is the mortgagee to which the servicing responsibilities have been transferred.

The “Transfer Date” or Effective Date of the servicing transfer is the date on which the Borrower’s Mortgage Payment is first due to the Transferee Servicing Mortgagee.

The Selling Mortgagee is the mortgagee that sells the mortgage and thereby relinquishes all rights and obligations under the contract for mortgage insurance.

The Purchasing Mortgagee is the mortgagee that purchases the mortgage and thereby succeeds to all rights and obligations of the Selling Mortgagee under the contract for mortgage insurance.
The effective date of the sale is the date entered as “Transfer Date” in the Servicer/Holder Transfer function in FHA Connection (FHAC) and is the date on which the Borrower’s Mortgage Payment is first due to the Purchasing Mortgagee.

**ii. Standard**

Pursuant to 24 CFR §§ 202.5 and 203.502, mortgagees holding the FHA-insured mortgages are responsible for all servicing actions, including the acts of its servicers. The U.S. Department of Housing and Urban Development (HUD) considers the actions of the servicer to be the actions of the holder.

Servicers, as FHA-approved mortgagees, are also responsible for their actions in servicing FHA-insured mortgages, including actions taken on behalf or at the direction of another mortgagee.

**(A) Transferee and Transferor Servicing Responsibility**

As of the effective date of the transfer, the Transferee Servicing Mortgagee is held equally responsible for servicing actions with the holding mortgagee.

**(B) Selling Mortgagee Responsibility**

HUD holds the Selling Mortgagee obligated to HUD under the contract for mortgage insurance until the “Transfer Date” reported in FHAC.

**(C) Purchasing Mortgagee Responsibility**

HUD will hold Purchasing Mortgagees financially responsible for errors, omissions, and unresolved HUD review Findings discovered after the effective date of the sale, even when the errors or omissions occurred on the part of the Selling Mortgagee before the effective date of the sale.

**(D) Registration with Mortgage Electronic Registration System, Inc.**

The Mortgage Electronic Registration System (MERS) is an electronic tracking system identified as nominee for a holder of a mortgage loan. Mortgagees may voluntarily register FHA-insured mortgages with MERS. The holding mortgagee remains responsible for all servicing actions.

**b. Communications with Borrowers**

Mortgagees must comply with all laws, rules, and requirements applicable to requests for information from Borrowers, including full compliance with the applicable requirements under the purview of the Consumer Financial Protection Bureau (CFPB), including the Real Estate Settlement Procedure Act (RESPA).
i. Mortgagee Communication Capabilities

Per 24 CFR § 203.508, the mortgagee must:

- provide loan information to Borrowers and arrange for individual consultation, upon request;
- have written procedures and controls to assure prompt responses to Borrower inquiries; and
- have one or both of the following means of communication:
  - within 200 miles of the property, an office staffed with competent personnel capable of providing timely responses to requests for information; or
  - a toll-free and/or collect-calling telephone service at an office capable of providing timely responses to requests for information.

ii. Communication with Authorized Third Parties

(A) Definition

Authorized Third Parties are parties who are not Borrowers on the mortgage but who are authorized to communicate with mortgagees regarding a mortgage.

(B) Standard

The mortgagee must comply with all laws, rules, and requirements applicable to third-party access to mortgage information.

(C) Required Documentation

If communicating with an Authorized Third Party, the mortgagee must include documentation of the authorization in the servicing binder:

- a copy of a written authorization signed by the borrower;
- a copy of a power of attorney, order of guardianship, or other documentation authorizing that third party to act on behalf of the Borrower; or
- if authorization was received verbally, information on the date, time, and name of the Borrower providing authorization.

iii. Notice to the Borrower of Transfer of Servicing

The Transferor Servicing Mortgagee and the Transferee Servicing Mortgagee must send the Borrower notice of the servicing transfer within the timeframes established in 24 CFR § 203.502. Mortgagees must base the contents of these notices on the requirements established in RESPA.
(A) Notice from the Transferor Servicing Mortgagee

The Transferor Servicing Mortgagee must deliver a notification of the transfer to the Borrowers at least 15 Days before the effective date of the transfer.

(B) Notice from the Transferee Servicing Mortgagee

The Transferee Servicing Mortgagee must deliver a notification of the transfer to the Borrowers no later than 15 Days before the effective date of the transfer.

iv. Statement of Escrow Account

Pursuant to 24 CFR § 203.508, at the Borrower’s request, the mortgagee must promptly furnish a statement of the escrow account in a clear and understandable form, with sufficient information to permit the Borrower to reconcile the account.

v. Payoff Procedure Disclosure

When notified of the Borrower’s intent to prepay a mortgage closed before January 21, 2015, the mortgagee must send to the Borrower directly the following Payoff Procedure Disclosure and copy of the payoff statement.

Sample Payoff Procedure Disclosure

[In response to prepayment inquiry, request for payoff, or tender of prepayment in full]

PAYOFF PROCEDURE DISCLOSURE

Borrower: __________________________ Date: __________________________
Address: __________________________ Loan #: __________________________
____________________________________ FHA #: __________________________

This is in reply to your ____________ inquiry/request for payoff figures or offer to tender an amount to prepay in full your FHA-insured mortgage which this company is servicing.

This notice is to advise you of the procedure which will be followed to accomplish a full prepayment of your mortgage.

[ ] [Mortgagee] will:

[ ] accept the full prepayment amount whenever it is paid and collect interest only to the date of that payment; or
[ ] only accept the prepayment on the first day of any month during the mortgage term; or
accept the prepayment whenever tendered with interest paid to the first day of the month following the date prepayment is received;
[ ] require at least 30 days prior written notice of your intent to prepay the mortgage (for mortgages insured prior to August 2, 1985). We consider that the 30-day written notice has not yet been complied with. NOTICE MUST BE IN WRITING;

[ ] consider that we have received notice of your intended prepayment and the 30-day notice began to run on [date].

[Instructions: Insert the following sentence for a mortgage closed before [Effective Date of Proposed Rule].]

NOTE: It is to your advantage to arrange closings so that the prepayment reaches us on or before (as close to the end of the month as possible) the first work day of the month.

If you have any questions regarding this notice, please contact [name and/or department] at [telephone number].

________________________
Mortgagee

Attachment: Payoff Statement

vi. Annual Notices to Borrower

(A) Annual Prepayment Disclosure Statements

The mortgagee must annually provide the Borrower with the following written Prepayment Disclosure Statement of the amount outstanding on the mortgage and of the requirements that the Borrower must fulfill upon prepayment of the mortgage to prevent accrual of interest after the date of prepayment.

Prepayment Disclosure Statement: Annual Disclosure Notice to Borrower

Borrower: ___________________________ Date: ___________________________
Address: ___________________________ Loan #: ___________________________
_____________________________ FHA #: ___________________________

This notice is to advise you of requirements that must be followed to prepay your mortgage. [Instructions: Include the following sentence for mortgages closed before January 21, 2015.] This notice is also to advise you of requirements you must fulfill upon prepayment to prevent accrual of any interest after the date of prepayment.

The amount listed below is the amount outstanding on the loan for prepayment of the indebtedness due under your mortgage. This amount is good through [date].

(The amount provided is subject to further accounting adjustments. Also, any mortgage payments received or advances made by us before the stated expiration date will change the prepayment amount.)
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[Instructions: The amount below must reflect the amount outstanding under the mortgage, including principal, interest, penalties, late charges, advances, any other charges related to the loan, and any foreclosure or bankruptcy expenses incurred to date under the mortgage.]

$_________________ (amount)

[Instructions: Insert the following paragraph for a mortgage insured before August 2, 1985.]
You may prepay your mortgage at any time without penalty. However, you are required to provide a written 30-day advance notice of prepayment. In order to avoid the accrual of interest on any prepayment after the date of prepayment, the prepayment must be received on the installment due date (the first day of the month).

[Instructions: Insert the following paragraph for a mortgage insured on or after August 2, 1985, and closed before January 21, 2015]
You may prepay your mortgage at any time without penalty. However, in order to avoid the accrual of interest on any prepayment after the date of prepayment, the prepayment must be received on the installment due date (the first day of the month).

[Instructions: Insert the following paragraph for a mortgage closed on or after January 21, 2015.]
You may prepay your mortgage at any time without penalty. You will only be required to pay interest up to the date the prepayment is made.

[Instructions: Use one of the following options in its Prepayment Disclosure Notice.] (1) Otherwise, your prepayment will be refused until the next installment due date and interest will be charged to that date. (2) (For mortgages closed before January 21, 2015) Otherwise, you may be required to pay interest on the amount prepaid through the end of the month. (3) (For mortgages closed on or after January 21, 2014) Otherwise, you may be required to pay interest up until the date the prepayment is made.

If you have any questions regarding this notice, please contact [name and/or department] at [telephone number].

_________________________
Mortgagee

(B) Statement for Income Tax Purposes

Pursuant to 24 CFR § 203.508, by January 30 of each year, the mortgagee must furnish the Borrower with a statement of taxes and interest paid during the preceding calendar year.
c. Servicing Fees and Charges

i. Reasonable and Customary Fees and Charges

Pursuant to 24 CFR § 203.552, the mortgagee may collect certain reasonable and customary fees and charges from the Borrower after the mortgage is insured and as authorized by HUD below. All fees must be:

- reasonable and customary for the local jurisdiction;
- based on actual cost of the work performed or actual out-of-pocket expenses and not a percentage of either the face amount or the unpaid principal balance of the mortgage; and
- within the maximum amount allowed by HUD.

ii. Prohibited Fees and Charges

The mortgagee must not charge the Borrower for the following services:

- costs of telephone calls, telegrams, personal visits with the Borrower, or other activities that are normally considered a part of a prudent mortgagee's servicing activity;
- mortgagee's use of an independent contractor such as a tax service to furnish tax data and information necessary to pay property taxes or make the payments on behalf of the mortgagee;
- preparing and providing evidence of payoff, reconveyance, or termination of the mortgage;
- providing information essential to the payoff;
- recording the payoff of the mortgage in states where recordation is the responsibility of the mortgagee; or
- fees for services performed by attorneys or trustees who are salaried members of the mortgagee’s staff.

iii. Fees for Borrower Requests for Certain Services

The mortgagee may charge the Borrower the reasonable and customary fees for certain services as follows.

(A) Copy of Mortgage or Deed of Trust

The mortgagee may assess a reasonable and customary fee of up to $10.00 for a duplicate mortgage or deed of trust, if the copy is a duplicate of what was previously provided to the Borrower.
(B) Copy of Mortgage Note

The mortgagee may assess a reasonable and customary fee of up to $10.00 for a duplicate mortgage note, if the copy is a duplicate of what was previously provided to the Borrower.

(C) Copy of Settlement Statement

The mortgagee may assess a reasonable and customary fee of up to $10.00 for a duplicate settlement statement, other than the settlement statement provided at closing.

(D) Copy of Amortization Schedule

The mortgagee may assess a reasonable and customary fee of up to $15.00 for an amortization schedule, other than the schedule provided at closing.

(E) Replacement Coupon Books

The mortgagee may assess a reasonable and customary fee of up to $5.00 for replacement coupon books.

(F) Verification of Mortgage

The mortgagee may assess a reasonable and customary fee of up to $20.00 for processing requests from other mortgagees or prospective creditors for verification of the status of an existing mortgage.

(G) Copy of Year-End Statement

The mortgagee may assess a reasonable and customary fee of up to $5.00 for duplicate year-end statements.

iv. Other Fees and Charges

The mortgagee may request approval from the HOC with jurisdiction over the area for any fee, charge, or unusual service not specifically mentioned in this SF Handbook. The HOC will determine the maximum amount of any fee based on what is reasonable and customary in the area.

d. Providing Information to HUD

The mortgagee must respond to verbal or written requests for individual account information, including all servicing information and related data and the entire mortgage origination file, from HUD staff or from a HUD-approved counseling agency acting with the consent of the
Borrower, per 24 CFR § 203.508. Within 24 hours of a request from HUD, the mortgagee must make available legible documents and in the format (electronic or hard copy) requested.

2. Servicing of Performing Mortgages

a. Transfers of Servicing and Sales of Mortgages

   i. Compliance with all Applicable Laws, Rules, and Requirements

      The mortgagee must comply with all laws, rules, and requirements applicable to the servicing of FHA-insured mortgages, including full compliance with the applicable requirements under the purview of the CFPB, including RESPA.

   ii. Transfers of Servicing

      (A) Notification to HUD of Transfer

      The Transferor Servicing Mortgagee must notify HUD within 15 Days of the transfer via the Servicer/Holder Transfer function in FHAC, as required by 24 CFR § 203.502.

      (B) Mortgage Payments during Transfer

      The Transferor Servicing Mortgagee must handle Mortgage Payments made during the 60-Day period beginning on the effective date of the servicing transfer in accordance with applicable federal law, including RESPA.

      (C) Failure to Provide Timely Notice

      If the Borrower does not timely receive notice of the servicing transfer, neither the Transferor Servicing Mortgagee nor the Transferee Servicing Mortgagee may hold the Borrower responsible if the Borrower's payments are not received in a timely manner. Mortgagees must not assess late charges and must not report these Borrowers to consumer reporting agencies for non-payment when the Borrowers have not been properly notified of the servicing transfer.

   iii. Sale of the Mortgage

      The Selling Mortgagee must notify HUD via the Servicer/Holder Transfer function in FHAC within 15 Days of the date of the sale. The Selling Mortgagee must enter as the “Transfer Date” the effective date stated on any sale agreements between the Purchasing and Selling Mortgagees.

      Should the Selling Mortgagee fail to notify HUD of the sale, the Purchasing Mortgagee may notify HUD by completing this function in FHAC.
iv. Mortgage Insurance Premium Reports

If, 90 Days after acquisition, a transferred or sold mortgage has not appeared on HUD’s monthly Mortgage Insurance Premium (MIP) report to the Transferee Servicing Mortgagee or Purchasing Mortgagee, that mortgagee must ensure that the Servicer/Holder Transfer function is completed in FHAC.

v. Mortgage Record Changes in FHAC

See the FHA Connection Guide for technical guidance on procedures in processing Mortgage Record Changes in FHAC.

Portfolio-wide transfers resulting from mergers, consolidations, and acquisitions are automatically recorded in FHAC after receipt of the notification required under the Section Mergers, Acquisitions, and Reorganizations.

b. Escrow Setup

i. Compliance with all Applicable Laws, Rules, and Requirements

The mortgagee must comply with all laws, rules, and requirements applicable to escrow accounts for FHA-insured mortgages, including full compliance with the applicable requirements under the purview of the CFPB, including RESPA.

Where mortgage contract terms are more stringent or restrictive than those provided for in RESPA, the mortgagee must comply with the mortgage contract terms.

ii. Escrow Deposits

Pursuant to 24 CFR § 202.5, the mortgagee must segregate all escrow funds received from Borrowers with FHA-insured mortgages, including those funds escrowed at closing under form HUD-92300, Mortgagee’s Assurance of Completion.

(A) Special Custodial Account

Pursuant to 24 CFR § 202.5, the mortgagee deposit escrow funds received in a special custodial account with a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). This special custodial account must clearly identify the type of funds being held in that account.

(B) Trust Clearing Account

To expedite the deposit of daily collections, the mortgagee may establish a Trust Clearing Account for collections received on all types of mortgages. For payments received on FHA-insured mortgages and deposited into the Trust Clearing Account,
the mortgagee must withdraw the portion that is to be applied to escrows within 48 hours of the deposit and must transfer the portion to the Borrower’s escrow account.

For payments that are not deposited in a Trust Clearing Account, the mortgagee must immediately transfer payments into the special custodial account. The mortgagee must then withdraw the portion representing principal, interest, and service charges within 30 Days after deposit and post to the Borrower's records accordingly.

### iii. Commingling

The mortgagee may commingle escrow funds for FHA-insured mortgages in a single bank account that contains escrow funds for mortgages that are not FHA insured. Mortgagees must never commingle escrow funds, not even temporarily, with funds used for the mortgagee's general operating purposes.

### c. Escrow Administration

The mortgagee must maintain escrow accounts in accordance with RESPA requirements for the following:
- limits on payments to escrow accounts;
- methods of escrow analysis;
- transfers of servicing; and
- shortages, surpluses, and deficiencies requirements.

#### i. Additional Collections

The mortgagee may maintain a cushion in the escrow account in accordance with federal requirements and regulations, including RESPA.

#### ii. Proper Use of Escrow Funds

The mortgagee must only use escrow funds for the purpose for which they were collected.

**(A) Improper Application of Escrow Funds**

The mortgagee must never deduct amounts from a Borrower’s escrow account to pay the following:
- penalties for late payments not directly resulting from the Borrower’s error or omission;
- attorney’s fees incurred in foreclosure actions that are not completed;
- inspection fees; and
- mortgage delinquencies or refunds of overpaid subsidy.
(B) Escrow Funds May Be Treated as One Entity

The mortgagee may structure its accounts to segregate funds for specific purposes. When funds are collected for a specific purpose, the mortgagee may use these funds for payment of other mortgage obligations properly paid from the escrow account.

(C) Interest on Escrow

HUD regulations neither forbid nor require that escrow accounts earn interest. The mortgagee must charge the Borrower any income derived from the escrow account as follows:

- The mortgagee must make the payment to the Borrower in compliance with state and regulatory agency requirements governing the handling and payment of interest earned on a Borrower’s escrow account.
- The mortgagee may deduct the actual cost of administering the interest bearing account, not exceeding the gross interest earned, before passing on the net earnings to the Borrower.

(D) Investment of Escrow Funds

The mortgagee may not use funds in an escrow account to invest in any vehicle that limits the mortgagee’s access to funds, requires an advance notice of withdrawal, or requires the payment of a withdrawal penalty.

When escrow funds are invested, the mortgagee must pass on to the Borrower the net income derived from this investment in accordance with the following:

- The mortgagee must make investments and payments in compliance with state and federal agency requirements governing the handling and payment of interest earned on a Borrower’s escrow account.
- The mortgagee may only deduct the actual cost of administering the interest bearing account before passing on to the Borrower the net earnings from the investment of their funds.
- The mortgagee may not charge the Borrower expenses for maintaining the interest-bearing escrow account in an amount exceeding the gross interest earned from investing the funds in that account.

(E) Prohibition on Pre-Accrual

(1) Definition

Pre-accrual is the practice of requiring Borrowers to deposit funds needed for disbursement and maintenance of a cushion in the escrow account some period before the Disbursement Date.
(2) Standard

HUD prohibits pre-accrual for all escrow accounts established under mortgages originated on or after May 24, 1995.

For mortgages made before May 24, 1995, with pre-accrual provided for in the mortgage forms, mortgagees may continue with pre-accrual so long as the escrow account balance does not become higher than the balance permitted by federal regulations, including RESPA.

iii. Escrow Analysis

The mortgagee must perform analysis, at least annually, of the escrow account to provide for adequate collections to pay escrow bills when they are due without creating excessive surpluses. These analyses must begin no later than the end of the second year of the life of the mortgage.

iv. Payments from Escrow Accounts

When making payments from escrow accounts, mortgagees must:

- send payment directly to the billing agency or the taxing authority;
- establish controls to ensure that bills payable from the escrow account, or the billing information needed to pay them, is obtained on a timely basis;
- request a bill from the billing agency if a bill has not been received within a reasonable time before the payment due date;
- contact the Borrower, if necessary, to obtain the bill or the information needed to pay such bills if a bill is not received within a reasonable time before the known payment due date; and
- make disbursements as bills become payable, even if making the payment requires advancing corporate funds when the escrow deposits are inadequate to meet these obligations.

The mortgagee may contract with a tax service organization to manage the payment of taxes.

(A) Penalties Assessed to Borrowers

Pursuant to 24 CFR § 203.550, the mortgagee must not charge the Borrower penalties for late payments for items payable from the escrow account unless it can be shown that the late payment was the result of the Borrower’s error or omission.

Before a late payment penalty can be charged to the Borrower, the mortgagee must document its efforts to obtain the billing information from the Borrower, billing agency, or the taxing authority.
(B) Payment of Insurance Premiums

(1) Long-term Policies

The mortgagee may not reject an insurance policy with a term of more than one year if the carrier and amount are otherwise acceptable to the mortgagee. The mortgagee may collect funds for renewal premiums on long-term policies in the following ways:

- For renewal with the same policy term: The mortgagee may immediately begin collecting a monthly amount calculated to make funds available 30 Days before the policy expires; or
- For renewal with a one-year term: The mortgagee may defer collection of monthly escrows until 13 months before the expiration date of the policy then begin monthly collection of 1/12th of the renewal premium for a policy providing similar coverage.

A Borrower wishing to renew for a longer term may be required to make a lump sum deposit to escrow for the additional amount required to pay the renewal premium with the mortgagee 30 Days before the expiration date of the present policy. If the additional deposit is not made, the mortgagee may renew the policy for one year and continue to escrow as for a one-year policy.

(2) Optional Policies

Pursuant to 12 CFR § 1024.17, the mortgagee must note on the initial and annual escrow statements any Borrower's discretionary payment made as part of a monthly Mortgage Payment for the following optional policies.

(3) Advancing Corporate Funds for Optional Policies

The mortgagee may advance corporate funds when the escrow deposits are inadequate to meet obligations for payment of premiums for optional insurance coverage. The mortgagee must not charge against the escrow account any funds for these advances.

(4) Personal Property and Personal Liability Insurance

If the Borrower has obtained Personal Property and personal liability insurance coverage not directly related to the mortgaged property, the mortgagee must only escrow for the payment of these premiums if the premiums are combined with dwelling insurance in one insurance premium payment.
(5) Life Insurance and Disability Insurance

Mortgagees may not deposit premiums for life or disability insurance coverage in the same bank accounts as other escrow payments.

The mortgagee must maintain separate records for these life or disability insurance coverage payments.

Mortgagees are not required to itemize the Borrower's monthly contribution for life or disability coverage on payment coupons.

(6) Insurance Protecting Only the Mortgagee

The mortgagee must not charge the Borrower any part of the cost of insurance coverage that does not benefit the Borrower.

d. Insurance Coverage Administration

i. Hazard Insurance

The mortgagees may require the Borrower to have hazard insurance. If the mortgagee requires the Borrower to purchase hazard insurance, the mortgagee must:

- be named as a “Loss Payee” on the hazard insurance policy; and
- escrow sufficient funds for the payment of renewal premium.

(A) Payment of Renewal Premium

The mortgagee may:

- remit the renewal premium when it is due;
- if the Borrower is required to pay the premiums and fails to do so, escrow funds until there are sufficient funds for the payment of the renewal premium; or
- advance the funds to pay the renewal premium.

(B) Notification of Loss

In the event of loss, the Borrower must notify the mortgagee and the insurance company for receipt and disposition of hazard insurance proceeds.

(C) Fee for Change in Hazard Insurance Policy

The mortgagee may assess a reasonable and customary fee for processing the Borrower’s request to change hazard insurance coverage when the existing policy has not yet expired.
ii. Flood Insurance

For properties located within a Special Flood Hazard Area (SFHA), the mortgagee must ensure that insurance is in force for the life of the mortgage or so long as such coverage remains available, unless the area in which the property is located is no longer designated as an SFHA. If, due to rezoning, a property securing an FHA-insured mortgage becomes located in an SFHA, the mortgagee must enforce HUD’s flood insurance requirements on coverage amounts and maintenance.

iii. Hazard or Flood Insurance Proceeds

(A) Insurance Claims

The mortgagee must take necessary steps to ensure that hazard and flood insurance claims are filed and settled as expeditiously as possible and that home damages are fully repaired.

(B) Loss Settlement Amounts for Borrower Expenses and Personal Property

The mortgagee must promptly release to the Borrower all insurance settlement proceeds received for coverage of a Borrower’s Personal Property, temporary housing, and other transition expenses. The mortgagee may not withhold disbursement of such proceeds to cover an existing arrearage without the written consent of the Borrower.

(C) Insurance Proceeds for Home Damage

The mortgagee must expedite release of insurance proceeds for needed home repairs after approving a viable repair plan.

(D) Application of Excess Insurance Proceeds to Unpaid Principal Balance

The mortgagee must apply insurance proceeds payable for home damages to arrearages and/or reduction of the unpaid principal balance if:

- the amount of the proceeds exceeds the costs to repair the damages to the home; or
- the insurance proceeds are insufficient to repair the home damages based on a certified repair estimate, and the Borrower is unable to demonstrate that they have additional funds from other sources to complete the repairs.

iv. Optional Policies

(A) Personal Property and Personal Liability Insurance

The mortgagee may allow the Borrower to add Personal Property and personal liability insurance premiums to their monthly payments.
(B) Life or Disability or Optional Coverage Income Policies

The mortgagee must clearly separate collection of unpaid optional coverage premiums from the collection of any unpaid Mortgage Payment. If the payment does not include all or a part of an optional coverage premium, the mortgagee may not treat the failure to pay as a failure to pay a part of the Mortgage Payment.

e. Payment Administration

i. Monthly Payments

The Borrower’s monthly payment must be in an amount sufficient to cover:

- MIP due, if any;
- other escrow items;
- interest on the mortgage; and
- principal on the mortgage.

ii. Premium Payments for Optional Coverage

The mortgagee may only apply funds for payments of optional insurance coverage premiums after the application of funds to all other elements of the monthly Mortgage Payment.

iii. Fees for Uncollectible Checks

The mortgagee may assess a reasonable and customary fee for processing or reprocessing a check returned as uncollectible for Insufficient Funds (NSF).

Where a Borrower’s bank policy permits, the mortgagee must present the check for payment twice before it can be deemed “uncollectible” if returned unpaid. When the check is returned to the mortgagee unpaid the second time, the mortgagee may assess a fee on the returned check.

iv. Return of Partial Payments

(A) Definition

A partial payment is a payment of any amount less than the full amount due under the mortgage at the time the payment is tendered, including late charges and amounts advanced by the mortgagee on behalf of the Borrower (such as for the payment of taxes).
(B) Standard

The mortgagee may return any partial payment to the Borrower with a letter of explanation.

v. Prepayment Procedures

The Borrower may prepay a mortgage in whole or in part on any Installment Due Date without penalty, pursuant to 24 CFR §§ 203.22 and 203.558.

(A) Definitions

A Partial Prepayment is a payment in part of the principal amount of the Mortgage Note in advance of the established amortization schedule.

A Payoff or Prepayment in Full is the payment in whole of the principal amount of the Mortgage Note in advance of expiration of the term of the Mortgage Note.

Notice of Intent to Prepay refers to the advance notice that Borrowers may be required to provide in order to prepay their FHA-insured mortgages in full without penalty.

The Installment Due Date is the first Day of the month, as provided for in the security instrument.

The 30-Day Advance Prepayment Notice Period refers to the time requirement for the Borrower to provide advance notice to the mortgagee for prepayment of an FHA-insured mortgage insured prior to August 2, 1985.

(B) Prepayment Procedures

24 CFR § 203.558 establishes procedures for the handling of prepayments and the calculating of interest.

(1) Mortgages Closed On or After January 21, 2015

The mortgagee must accept a prepayment on a mortgage closed on or after January 21, 2015, at any time and in any amount. The mortgagee must calculate the interest as of the date the prepayment is received, not as of the next Installment Due Date.
(2) Mortgages Closed Before January 21, 2015

(a) Mortgages Insured On or After August 2, 1985

If a Borrower wishes to prepay a mortgage insured on or after August 2, 1985 and closed before January 21, 2015, the Borrower must prepay the mortgage in full on the first Day of any month in the term of the mortgage.

If prepayment is offered on a day other than the Installment Due Date, the mortgagee may:

- refuse to accept the prepayment until the first Day of the next month;
- accept the prepayment and require the payment of interest to the first Day of the next month. For Prepayment in Full, this option may only be used if the mortgagee has provided the Payoff Procedure Disclosure to the Borrower.

(b) Mortgages Insured Prior to August 2, 1985

If a Borrower wishes to prepay a mortgage insured prior to August 2, 1985, the Borrower must:

- submit to the mortgagee a Notice of Intent to Prepay at least 30 Days prior to the prepayment; and
- prepay the mortgage in full on the first Day of any month in the term of the mortgage.

If a prepayment is offered on a day other than the Installment Due Date, the mortgagee may:

- refuse to accept the prepayment until the first day of the month following the expiration of the 30-Day Advance Prepayment Notice Period; or
- accept prepayment and require the payment of interest to the first day of the month following the expiration of the 30-Day Advance Prepayment Notice Period. For Prepayment in Full, this option may only be used if the mortgagee has provided the Payoff Procedure Disclosure to the Borrower.

(i) Borrower’s Notice of Intent to Prepay

For mortgages insured prior to August 2, 1985, the Borrower must send and the mortgagee must receive the Borrower’s Notice of Intent to Prepay at least 30 Days prior to prepayment.

If the Borrower submits a prepayment without previously sending a Borrower’s Notice of Intent to Prepay, the mortgagee may consider receipt
of the prepayment as the Borrower’s Notice of Intent to Prepay. The mortgagee may choose to:

- provide a Payoff Procedure Disclosure, enabling the mortgagee to:
  - defer acceptance of prepayment until the first day of the month following the date prepayment is tendered; or
  - accept the prepayment and require the payment of interest to the first day of month following the date prepayment is tendered; or

- accept the prepayment on the date tendered, which limits the mortgagee’s collection of interest to that prepayment date.

(ii) Effective Dates for Notice of Intent to Prepay

The effective date of the Notice of Intent to Prepay is the date that the Notice was received by the mortgagee, unless the Borrower can produce documentation showing that the Notice was received earlier. The 30-Day Advance Prepayment Notice Period required for mortgages insured prior to August 2, 1985, begins on this date of receipt.

(iii) Installment Due Date Falls on a Non-Business Day

When the Installment Due Date falls on a non-business day, the mortgagee must consider a Borrower’s Notice of Intent to Prepay or the receipt of the prepayment amount for a mortgage closed before [effective date of proposed rule] timely if received on the next business day.

(3) Methods of Applying Partial Prepayments

The mortgagee must apply Partial Prepayments as requested by the Borrower as either:

- advance full monthly payments; or
- additional payments toward reducing principal and future monthly payments.

In the event that the Borrower does not specify how the Partial Prepayment should be applied, the mortgagee should communicate with the Borrower to determine the method of application or apply the payment in a manner previously communicated to the Borrower.

(4) Payoff Procedure Disclosure Requirements

When notified of the Borrower’s intent to prepay, the mortgagee must send to the Borrower directly the Payoff Procedure Disclosure and copy of the payoff statement, even if the mortgagee is dealing with an Authorized Third Party.
Pursuant to 24 CFR § 203.558, the mortgagee will forfeit any interest collected after the date of prepayment if these disclosure requirements are not met.

(C) Advance Full Monthly Payments

The Borrower may elect to have Partial Prepayments equal to a full monthly payment applied as an advance full monthly payment. The mortgagee must allow the Borrower to skip an equal number of installments in the future without creating a mortgage default or incurring a late charge.

(D) Fee for Fax of Payoff Statement

The mortgagee may charge a maximum fee of $5.00 for the faxing of a payoff statement, if requested by the Borrower or Authorized Third Party.

(E) Fee for Additional Payoff Statements

After two payoff statements have been provided free of charge to the Borrower for the calendar year, the mortgagee may assess a reasonable and customary fee of up to $10.00 for each additional payoff statement.

(F) Trustees’ Fee for Satisfactions

If specifically provided for in the security instrument, the mortgagee may charge the amount of the trustee's fee, plus any reasonable and customary fee for payment, for the execution of a satisfaction, release or trustee's deed when the debt is paid in full.

(G) Recording Fees for Satisfactions

The mortgagee may charge a reasonable and customary fee for recording satisfactions where recordation is not required by state law.

f. Mortgage Insurance Premium Remittance

i. Annual or Periodic MIP

HUD provides the Advance Premium Notice and case-level billing information annually to the mortgagee via FHAC as a basis for monthly collections of MIP after the first premium year.

ii. Payment of Periodic MIP

The mortgagee must remit one-twelfth of the annual MIP each month to HUD, regardless of whether it was received from the Borrower.
iii. MIP Schedule

Pursuant to 24 CFR § 203.261, the mortgagee must remit MIP in accordance with the original amortization schedule of the mortgage established at the time the mortgage was insured, without regard to any Partial Prepayments, delinquent payments, agreements to postpone payments, or agreements to recast the mortgage.

g. Post-Endorsement Mortgage Amendments

The mortgagee and Borrower may agree to change the mortgage instruments, the nature of the obligation, or the security after the mortgage has been insured, in accordance with the following.

i. Modifying a Performing Mortgage

The mortgagee may modify a performing mortgage, if providing only for a reduction of interest rate, without HUD approval.

The mortgagee must request and receive approval from the National Servicing Center (NSC) prior to modifying a performing mortgage when:

- the mortgage term is decreased;
- the Mortgage Payment will be increased over $100 per month; and
- the mortgage is three years old or less.

(A) Modification Requiring HUD Approval

The mortgagee may modify the mortgage to decrease the mortgage term by increasing the monthly payment so long as all of the following conditions are met:

- The mortgage is current and the Borrower’s payment history is satisfactory to the mortgagee.
- The mortgagee has determined that the higher monthly payment is within the Borrowers’ ability to pay.
- The mortgagee has received HUD approval, if the monthly Mortgage Payment will be increased over $100 per month and/or the mortgage is three-years old or less.
- The modification agreement contains a clause permitting reversion to original mortgage terms if reversion can salvage a delinquent account and prevent foreclosure.
- The modification agreement contains a certification by the Borrowers stating that they are aware of the positive and negative aspects of the modification and that they have voluntarily agreed to the increased payments.
(B) Principal Amount of Modified Performing Mortgage

The new principal amount of the modified mortgage is the total unpaid amount due and payable under the original mortgage, excluding the following:

- any revision of periodic MIP payments; and
- any legal or administrative costs attributable to the modification (these costs may be collected separately from the Borrower).

(C) Recordation of Lien

The mortgagee must perform the legal steps required to accomplish the modification and must ensure that the mortgage remains a valid first lien against the property.

(D) Required Documentation

For all modifications, the mortgagee must retain the following:

- mortgage modification document, in the form of:
  - an amended original Note, with all changes initialed by all parties; or
  - a modification agreement executed by all parties;
- documentation evidencing that criteria for modifying the mortgage with or without HUD approval, as appropriate, were met;
- documentation showing calculations of the modified principal amount and the new monthly payment amount; and
- proof that any unpaid escrow added to the new principal amount was credited to the Borrower’s escrow account.

(E) Fee for Modification of Performing Mortgage

The mortgagee may charge the Borrower a reasonable and customary fee for processing and recording a modification of a mortgage that is performing or is in danger of imminent default.

(F) Reporting to HUD

The mortgagee must report mortgage characteristics for all modifications through FHAC and, if applicable, the Single Family Default Monitoring System (SFDMS).

(ii) Partial Release of Security

The mortgagee may execute a partial release of security resulting from condemnation in accordance with 24 CFR § 203.389(n) without HUD approval.

The mortgagee must request and receive approval from the Homeownership Center (HOC) with jurisdiction over the property prior to executing a partial release of security not resulting from condemnation in accordance with 24 CFR § 203.389(n).
(A) Partial Releases from Condemnation

Pursuant to 24 CFR § 203.389, the mortgagee may execute a voluntary or involuntary partial release of the security resulting from government action without HUD approval, provided that all of the following conditions are met:

- the portion of the property being conveyed does not exceed 10 percent of the area of the mortgaged property;
- there is no damage to existing Structures or other improvements;
- there is no unrepaired damage to sewer, water, or paving;
- the mortgagee has applied all of the payment received as compensation for the taking of the property to reduce the unpaid principal balance of the mortgage; and
- the government action requiring conveyance occurs after insurance of the mortgage.

(1) Mortgagee Consent to Release

When the mortgagee receives a request to join with the Borrower in conveying a portion of the security for an insured mortgage to a governmental agency for public use, the mortgagee may consent to the release without the prior approval of FHA provided that:

- the consideration is $300 or less, all of which will be applied to reduce the outstanding balance of the insured mortgage; and
- the mortgagee notifies the Appropriate HOC of the release by letter within 30 Days of the mortgagee’s signing the release.

(2) Required Documentation

If the mortgagee files a claim for mortgage insurance benefits, the mortgagee must submit a certification that the requirements for partial releases of security as a result of condemnation have been met.

(B) Partial Releases Requiring HUD Approval

(1) Request Process

For HUD approval of partial releases when the requirements of 24 CFR § 203.389(n) have not been met, the mortgagee must send the following to the HOC with jurisdiction over the property:

- a written request containing the following information:
  - whether or not the mortgage is in good standing;
  - the amount of the outstanding principal balance;
  - the due date of the last unpaid installment;
  - if the mortgage is delinquent, the number of delinquent payments;
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   o a list of unpaid special assessments, if any, and the total amount payable;
   o a complete legal description of the property to be released;
   o the Borrower’s reasons for requesting that the mortgagee make the release, including how the land to be released will be used;
   o the monetary consideration, if any, to be received by the Borrower;
   o the amount of a prepayment, if any, to the mortgage principal;
   o any restrictions to be imposed on the land to be released;
   o a survey or sketch of the property showing:
      ▪ dimensions of portion to be released;
      ▪ the location of existing and proposed improvements; and
      ▪ the relation of the property to surrounding properties;
   o plans and specifications, including cost estimates of any alterations proposed for the remaining property after the release; and
   o the case number of the mortgaged property; and
   • separate appraisals that reflect:
      o the value before the partial release of security; and
      o the value of the remaining property after the partial release of security.

(2) HUD Review

The HOC with jurisdiction over the property will process the request for the partial release of security and notify the mortgagee of the approval or rejection in writing.

(C) Fees for Partial Release of Security

The mortgagee may charge to the Borrower reasonable and customary costs involved in processing of the following modifications of the mortgaged property:

• partial releases;
• condemnation;
• order-of-taking;
• subordination or consent to easement;
• lot line dispute/adjustment;
• subdivision consent; and
• consent to change in covenants and restrictions.

iii. Change of Location of Dwelling or Improvements

(A) Requesting HUD Approval for Relocation

Except in the emergency situations described below, the mortgagee must obtain HUD approval prior to relocation. The mortgagee must submit to the NSC:
• the mortgagee’s request for a change in improvement location; and
• supporting documentation, including architectural exhibits, a copy of the permit, and a description of materials.

The NSC, in conjunction with the HOC with jurisdiction over the property, will analyze the request and notify the mortgagee of the approval or denial of the request.

(B) Emergency Relocation Not Requiring HUD Approval

Pursuant to 24 CFR § 203.343, the mortgagee may consent to the relocation of existing improvements in emergency situations, where immediate action must be taken to preserve the safety of the occupants and/or the undamaged condition of the existing improvements, without HUD approval. The mortgagee must:
• notify HUD of the completed permanent relocation; and
• submit a supplementary case binder containing supporting documentation for the change in improvement location.

(C) Relocation Requirements

The mortgagee must ensure that relocations are performed as follows, pursuant to the requirements in 24 CFR § 203.343:
• the mortgagee obtains a good and valid first lien on the new lot; the lien of the insured mortgage has been extended to cover the new lot and the old lot has or has not been released from the lien;
• all damages to the structure before, during, or after the relocation are repaired without cost to HUD; and
• the new lot is in an area known to be reasonably free from natural hazards or, if in an SFHA, the community participates in the Federal Flood Insurance and the property will be insured against floods.

After the move has been completed and the appropriate substitute documents have been recorded, the mortgagee must forward to HUD any documentation regarding the changes in the nature of the lien.

(D) Notification to HUD of Completed Permanent Relocation

Within 30 Days of the completion of the permanent relocation, the mortgagee must submit written notification to the NSC, advising that the relocation has been completed. This notification must include the following:
• the FHA case number of the mortgaged property;
• the address and legal description of the lot of the improvement’s previous location and the address and legal description of the new permanent location;
• a statement that requirements in 24 CFR § 203.343 have been met;
• a statement that the original Note is in full force and effect; and
• the outstanding balance of the insured mortgage, and, if delinquent, the
  number of payments, the dollar amount of the delinquency, and an
  explanation of how the delinquency is expected to be cured.

(E) Temporary Relocation

When a temporary move becomes necessary, the mortgagee may consult the NSC in
writing, prior to the move, for written assurance that the mortgage insurance will not
be affected adversely during the move.

All damages to the structure before, during, or after the relocation have been or will
be repaired without cost to HUD.

(F) Notification to HUD of Completed Temporary Relocation

Within 30 Days of the completion of the temporary relocation, the mortgagee must
submit written notification to the NSC, advising that the temporary relocation has
been completed. This notification must include the following:
  • the FHA case number of the mortgaged property;
  • the address and legal description of the lot of the improvement’s previous
    location and the address and legal description of the new temporary lot; and
  • a statement that:
    o the move to the temporary lot has been accomplished; and
    o any damage caused by the temporary move has been or will be repaired at
      no cost to HUD.

iv. Refinance Transactions

For information on refinances, please see Refinances.

h. MIP Cancellation and Termination

i. Definition

An MIP cancellation is the ending of MIP payments on an FHA-insured mortgage. The
FHA contract of insurance remains in force for the mortgage’s full term, unless otherwise
terminated. MIP cancellation policies apply only to FHA-insured mortgages that closed
on or after January 1, 2001, and were assigned a case number before June 3, 2013.

ii. Cancellation of MIP for Loans Closed on or after January 1, 2001 but
    before June 3, 2013

The policies in this section apply only to FHA-insured mortgages that:
  • closed on or after January 1, 2001; and
  • have a case number assignment before June 3, 2013.
(A) Automatic Cancellation of MIP

HUD automatically cancels FHA MIP under the conditions set forth as follows.

New appraised values will not be considered in calculating if the Borrower has reached the required Loan-to-Value (LTV) ratio for annual MIP cancellation.

HUD bases the cancellation of the annual MIP on the initial amortization schedule. In cases where the Mortgage Payments have been accelerated or modified, HUD may base cancellation on the actual amortization of the mortgage as provided to HUD by the servicing mortgagee.

(B) Mortgage Term of More Than 15 Years

For mortgages with terms more than 15 years, HUD cancels the annual MIP when the LTV ratio reaches 78 percent of the lesser of the sales price or the appraised value at origination, provided the Borrower has paid the annual MIP for at least five years.

(C) Mortgage Term 15 Years or Less and LTV Ratio of 90 Percent and Greater

For mortgages with terms 15 years or less and LTV ratios of 90 percent and greater, HUD cancels the annual MIP when the LTV ratio reaches 78 percent of the lesser of the sales price or the appraised value at origination regardless of the length of time the Borrower has paid the annual MIP.

(D) Mortgage Term 15 Years or Less and LTV Ratio of 89.99 Percent and Less

For mortgages with terms 15 years or less, and LTV ratios of 89.99 percent and less, HUD does not charge annual MIP.

(E) Borrower-Initiated Cancellation of MIP

A Borrower that meets the following requirements may request cancellation of the collection of annual MIP through their mortgagee when:

- the Borrower has reached 78 percent threshold in advance due to prepayments, but not sooner than five years from the date of origination except for 15-year term mortgages; and
- the Borrower has not been more than 30 Days delinquent on the mortgage during the previous 12 months.

(F) Processing MIP Cancellation

The mortgagee must process the MIP cancellation using the Monthly MIP Cancellation function in FHAC.
iii. Termination of MIP on Mortgages Closed on or after June 3, 2013

For mortgages with FHA case numbers assigned on or after June 3, 2013, HUD automatically terminates FHA MIP as stated in Appendix - Mortgage Insurance Premiums.

iv. Distributive Shares

(A) Definition

A distributive share is a share of any excess earnings from the Mutual Mortgage Insurance Fund that may be distributed to a Borrower after mortgage insurance termination.

(B) Payment of Distributive Shares

At HUD’s discretion, HUD may pay distributive shares pursuant to 24 CFR § 203.423 when mortgage insurance is terminated. At the termination of the FHA mortgage insurance of a mortgage, HUD will determine if distributive share distributions are available.

HUD is not liable for unpaid distributive shares that remain unclaimed six years from the date notification was first sent to the Borrower’s last known address.

i. Mortgage Insurance Termination

i. Definition

A case termination is the ending of FHA Single Family mortgage insurance. Termination of FHA mortgage insurance ends:

- the obligation to pay MIP; and
- the rights of the Borrower and mortgagee under the FHA insurance contract.

ii. Termination of Mortgage Insurance

HUD terminates the FHA insurance contract as follows:

- automatically when the mortgage reaches maturity; or
- at the mortgagee’s request, due to:
  - prepayment (Borrower paid the mortgage in full before the maturity date) per 24 CFR § 203.316;
  - non-conveyance foreclosure (the property was acquired by a mortgagee or third party at a foreclosure sale or was redeemed after foreclosure and no insurance claim or Claim without Conveyance of Title (CWCOT) will be submitted to HUD) per 24 CFR § 203.315;
The mortgagee must report termination of a case to HUD within 15 Days of the actual event.

iii. Voluntary Termination of Mortgage Insurance

The Borrower and the mortgagee may agree to voluntarily terminate FHA mortgage insurance at any time, pursuant to 24 CFR § 203.295.

(A) Borrower’s Consent to Voluntary Termination

The mortgagee must obtain a signed Borrower’s Consent to Voluntary Termination of FHA Mortgage Insurance from each Borrower on the mortgage:

Borrower’s Consent to Voluntary Termination of FHA Mortgage Insurance

Mortgagee:____________________________________
FHA Case Number:________________________________
Borrower’s Name:________________________________
Property Address:_________________________________

I/We, ________________________, as borrower(s), and Mortgagee are electing to voluntarily terminate the FHA insurance contract associated with my/our mortgage in accordance with Section 229 of the National Housing Act (12 USC 1715(t)) (Act).

I/We understand that upon the termination of FHA insurance, I/we, as borrower(s), and Mortgagee will be entitled only to those rights or benefits available if the insurance contract had terminated as a result of payment in full of the insured loan or mortgage.

I/We further understand that upon execution of this request, the Mortgagee may submit the Insurance Termination form (form HUD-27050-A) to HUD and as of the termination date set forth on the Insurance Termination form, the mortgage will no longer be governed by FHA insurance program rules and regulations, including FHA’s loss mitigation requirements set forth in 24 CFR § 203.501, and will no longer be subject to the collection of mortgage insurance premiums.

I/We certify that I/we have read and understand the foregoing and hereby consent to terminate the FHA insurance contract associated with my/our mortgage.

Borrower(s):
(B) Request for Voluntary Termination

To request voluntary termination, the mortgagee must:

- submit the request for voluntary termination of mortgage insurance via FHAC within 15 Days of receiving the executed Borrower’s Consent form, per 24 CFR § 203.318; and
- certify in FHAC that all Borrowers on the mortgage have signed the consent form.

(C) Prorated MIP

Pursuant to 24 CFR § 203.319, the mortgagee must pay to HUD the pro rata portion of the current annual MIP before the contract of insurance will be terminated.

(D) Effective Date of Termination

Upon receipt of the request and the prorated annual MIP, HUD will notify mortgagees of insurance contract termination and will provide the effective date of termination, per 24 CFR § 203.310.

iv. Escrow Balance Returned to Borrower

If no claim for insurance benefits will be filed, the mortgagee must timely release the funds held in escrow in accordance with federal regulations, including RESPA, after the termination of the FHA-insured mortgage.

j. Record Retention – Servicing File

All servicing files must be retained for a minimum of the life of the mortgage plus seven years. The mortgagee must maintain precise records for each mortgage serviced. These records must include the following information:

- FHA-insured mortgages in the mortgagee’s portfolio;
- information on which mortgages have been acquired, sold, paid in full, and voluntarily terminated;
- MIP payments made; and
- documentation relating to any recovery of hazard insurance proceeds.
i. Record Reconciliations

HUD may require mortgagees to provide information evidencing reconciliation of mortgagee records with HUD. This information may include identification, by mortgage, of the following:

- amount of MIP due and paid to HUD by time period for each insured mortgage;
- date insurance was terminated or servicing transferred, if applicable; and
- date servicing was acquired, for mortgages acquired after September 1, 1982.

ii. Electronic Storage

Mortgagees may use electronic storage methods for all servicing-related documents required in accordance with HUD regulations, handbooks, Mortgagee Letters, and notices where retention of a hard copy or original document is not required.

Regardless of which method of storage is used, the mortgagee must be able to make available legible documents within 24 hours of a request from HUD in the format (electronic or hard copy) requested.

3. Default Servicing

a. Definitions

A mortgage account is delinquent any time a payment is due and not paid.

A mortgage is in default when the Borrower fails to make any payment or to perform any other obligation under the mortgage for a period of 30 days.

A Borrower facing imminent default is defined as a Borrower that is current or less than 30 Days past due on their mortgage obligation and is experiencing a significant, documented reduction in income or some other hardship that will prevent them from making the next required Mortgage Payment during the month that it is due.

Early Payment Default (EPD) occurs when a mortgage becomes 60 Days past due within the first six months of the mortgage term.

Re-defaults occur when a mortgage goes into default within six months after reinstatement or the successful use of a Loss Mitigation Option.

b. HUD Default Servicing Contact

The National Servicing Center (NSC) in Oklahoma City, OK, manages HUD’s Loss Mitigation Program. HUD NSC staff is available to provide customer service to mortgagees, servicers, counselors and Borrowers on loss mitigation issues.
Phone Number: (877) 622-8525

Written inquiries may be directed to:

U.S. Department of Housing and Urban Development
National Servicing Center
301 NW 6th Street, Room 200
Oklahoma City, OK 73102

3. Default Servicing

c. Late Charges

i. Definition

Late charges are charges assessed if a Mortgage Payment is not received when due.

ii. Standard

The mortgagee may collect a late charge of up to 4 percent of each payment of Principal, Interest, Taxes and Insurance (PITI) not made, if a payment is received by the mortgagee more than 15 Days after the due date, pursuant to 24 CFR § 203.25.

iii. Advance Demand Notice

The mortgagee must not collect the late charge or return a Mortgage Payment to the Borrower for failing to pay the late charge until the mortgagee has provided the Borrower with an advance written notice of the charge that includes:

- the due date of the payment;
- the amount of the regular monthly payment;
- the date on which the late charge will be imposed; and
- the amount of the late charge (or the full amount now due which consists of the regular monthly payment plus the late charge amount).

iv. Application of Subsequent Payment to Unpaid Late Charges

After advance notice has been sent to the Borrower, the mortgagee may treat any subsequent payment that does not include the late charge in accordance with HUD's Partial Payment section.

v. Default/Foreclosure Due to Unpaid Late Charges

A mortgage may be technically in default by its terms if a late charge is not paid within 30 Days after it becomes due. However, pursuant to 24 CFR § 203.554, the mortgagee may not initiate foreclosure action when the only delinquency is due to:

- unpaid late charges that are due on the account; and/or
• unpaid monthly payments that remain unpaid because the mortgagee did not comply with HUD’s Partial Payment section and refused to accept a subsequent payment that was insufficient to pay the full amount due including late charges.

vi. Surplus Escrow Application to Delinquency

The mortgagee must retain any escrow surplus discovered when performing the annual escrow account analysis for a delinquent mortgage pursuant to the terms of the mortgage documents and federal regulation, including RESPA.

d. Partial Payments

The mortgagee must comply with all laws, rules, and requirements applicable to partial payments, including full compliance with the applicable requirements under the purview of the CFPB, including Truth in Lending Act (TILA) regulations on prohibited acts or practices in connection with credit secured by a dwelling.

i. Acceptance of Partial Payments

The mortgagee must accept any partial payment and either apply it to the Borrower's account or identify it with the Borrower's account and hold it in a trust account pending disposition except as discussed in the Return of Partial Payments for Mortgage in Default and Exceptions to Partial Payment Acceptance Rules on a Defaulted Mortgage sections below.

ii. Application of Payments

Pursuant to 24 CFR § 203.24, the mortgagee must apply Borrower payments in the following order:
• to MIP due, if any;
• to other escrow items;
• to interest on the mortgage;
• to amortization of the principal on the mortgage; and
• to late charges.

iii. Application of Partial Payments Totaling a Full Monthly Payment

When partial payments held for disposition total a full monthly payment, the mortgagee must apply these payments to the Borrower's account, after deduction of amounts due to the mortgagee for late charges and refunds of mortgagee advances. This application of partial payments as a full monthly installment advances the date of the oldest unpaid installment, but not the date on which the account first became delinquent.
iv. Return of Partial Payments for Mortgage in Default

If the mortgage is in default, the Borrower is not on an approved Trial Payment Plan, and the mortgage does not meet the exceptions in the Exceptions to Partial Payment Acceptance Rules on a Defaulted Mortgage section below, the mortgagee may return the partial payment to the Borrower with a letter of explanation only under the following circumstances:

- when the payment represents less than half of the full amount then due;
- when the payment is less than the amount agreed to in an oral or written Forbearance Plan;
- when the property is occupied by a rent-paying tenant and the rents are not being applied to the Mortgage Payments;
- when foreclosure has been started; or
- it is 14 Days or more after the mortgagee has mailed the Borrower a statement of the full amount due, including late charges, which advises that it intends to refuse to accept future partial payments (See Application of Subsequent Payment to Unpaid Late Charges) and either of the following conditions have occurred:
  - four or more full monthly installments are due but unpaid; or
  - a delinquency of any amount has continued for at least six months since the account first became delinquent.

v. Exceptions to Partial Payment Acceptance Rules on a Defaulted Mortgage

The mortgagee may decline to accept partial payments on a defaulted mortgage as follows:

- when the Borrower has demonstrated a general disregard for the obligations created by the mortgage contract through frequent defaults and reinstatements; and
- when speculators attempt to take advantage of these requirements in order to rent or resell the properties.

In these and similar situations, the mortgagee should return the partial payment with a letter of explanation and document its records regarding these exceptions.

e. Lien Status

The mortgagee must preserve the first-lien status of the FHA-insured mortgage. HUD will not pay a claim on a mortgage that lacks first priority position.

f. Imminent Default

i. Loss Mitigation Options that are Applicable for Imminent Default

Mortgagees may offer the following Loss Mitigation Options to eligible Borrowers facing imminent default:
Mortgagees may also offer Informal and Formal Forbearances.

ii. Documenting Imminent Default

The mortgagee must document in its servicing file the basis for the determination that the Borrower’s financial condition will result in an imminent default, and the mortgagee must retain all documentation regarding the imminent default pursuant to HUD’s record retention policies.

g. Early Default Intervention

i. Delinquent Mortgage Identification, Availability and Documentation

The mortgagee must identify Delinquent Mortgages and their payment status and provide such information to appropriate servicing and collection staff on a daily basis.

ii. Communication with Authorized Third Parties on Delinquent Mortgages

(A) Standard

In addition to requirements in the Communication with Authorized Third Parties section, the mortgagee must ensure that all Loss Mitigation Option documents requiring Borrower signature are signed by all Borrowers on the mortgage or by an Authorized Third Party with authority to act on behalf of the Borrower.

(B) Required Documentation

The mortgagee must include documentation of the authorization in the servicing binder:

- a copy of a written authorization signed by the Borrower; or
- a copy of a power of attorney, order of guardianship, or other documentation authorizing that third party to act on behalf of the Borrower.

For the purposes of signing Loss Mitigation Option documents, the mortgagee may not accept a Borrower’s verbal authorization for an Authorized Third Party.

iii. Loss Mitigation/Collection Actions

The mortgagee must take actions and make contact with delinquent Borrowers by the dates set forth in the following timeline. The mortgagee must determine the Borrower’s ability to make monthly Mortgage Payments and take loss mitigation action or commence
foreclosure, if loss mitigation is not feasible, within six months of the date of default, or within such additional time approved by HUD.

The mortgagee’s files must evidence efforts to reach the Borrower early in their delinquency and to take appropriate loss mitigation action.

<table>
<thead>
<tr>
<th>Day</th>
<th>Mortgagee Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Payment due date; no action required until the mortgage becomes delinquent.</td>
</tr>
<tr>
<td>10</td>
<td>The mortgagee must begin specialized collection techniques for Borrowers at risk of early payment default or re-default.</td>
</tr>
<tr>
<td>20</td>
<td>The mortgagee must begin attempts to make telephone contact with delinquent Borrowers.</td>
</tr>
<tr>
<td>25</td>
<td>The mortgagee must begin sending collection letters and electronic communications.</td>
</tr>
<tr>
<td>30</td>
<td>The mortgagee must report the delinquency to HUD via SFDMS.</td>
</tr>
<tr>
<td>Between 32 - 45</td>
<td>The mortgagee must send:</td>
</tr>
<tr>
<td></td>
<td>Notice of Homeownership Counseling Availability;</td>
</tr>
<tr>
<td></td>
<td>Servicemembers Civil Relief Act (SCRA) Disclosure (form HUD-92070);</td>
</tr>
<tr>
<td></td>
<td>Delinquency Notice Cover Letter; and</td>
</tr>
<tr>
<td></td>
<td>“Save your Home – Tips to Avoid Foreclosure” pamphlet (HUD-2008-5-FHA).</td>
</tr>
<tr>
<td>45</td>
<td>The mortgagee should begin analysis to identify appropriate Loss Mitigation Options, if any.</td>
</tr>
<tr>
<td></td>
<td>If unable to reach the Borrower(s), the mortgagee must perform an Occupancy Inspection.</td>
</tr>
<tr>
<td>61</td>
<td>The mortgagee must attempt a face-to-face-interview with the Borrower no later than this date, unless exempt under 24 CFR § 203.604(c).</td>
</tr>
<tr>
<td>90</td>
<td>The mortgagee must report the appropriate Default Reason Code for the default in SFDMS.</td>
</tr>
</tbody>
</table>

The mortgagee must have evaluated all Loss Mitigation Options to determine whether any are appropriate. The mortgagee must reevaluate for Loss Mitigation each month thereafter.

(A) Specialized Collection Techniques for Early Payment Defaults and Re-Defaults

For Borrowers at risk of early payment default or re-default because they fail to make timely payment, when due, during the first six months of the mortgage term or during the first six months after reinstatement or successful use of a Loss Mitigation Option, the mortgagee must:

- commence telephone contacts by the 10th Day after the first missed payment to discourage further delinquency;
- make a minimum of two calls per week after the 10th Day of delinquency, until:
contact is established; the mortgagee determines that the phone contact information is inaccurate, or no longer in service; or until the mortgagee determines through an Occupancy Inspection that the property is vacant or abandoned; and

- make reasonable efforts to obtain an alternate phone number and/or follow up with the Borrower using other methods of communication until contact is established.

(B) Telephone Contact Efforts

The mortgagee must attempt to contact the Borrower via telephone beginning on the 17-20th Day of delinquency, calling a minimum of two times per week until:

- contact is established, or
- the mortgagee has determined through an Occupancy Inspection that the mortgaged property is vacant or abandoned.

Promptly after establishing live contact, the mortgagee must determine whether the Borrower is occupying the property, ascertain the reason for the delinquency, and inform the Borrower about the availability of Loss Mitigation Options.

(C) Collection Letters and Electronic Communications

(1) Letters and Automatic Notices

The mortgagee must begin mail or electronic communication collection attempts between the 20-25th Day of delinquency.

(2) Electronic Methods of Communication

The mortgagee must communicate through one of the following methods of communication if it elects to communicate electronically with Borrowers:

- email;
- secure web portals (such as online account management tools accessible by Borrowers); and
- other reliable communication methods through which the mortgagee has been able to effectively communicate with Borrowers in the past.

The mortgagee must include in any electronic communication the mortgagee’s email address, telephone number, and/or website address.
(3) Selecting Best Method of Communication

The mortgagee must use the method or methods of communication most likely to receive a response from each Borrower and take into account the Borrower’s expressed preference for using certain methods of communication.

The mortgagee must effectively communicate with persons with hearing, visual, and other communications-related disabilities and persons with limited English proficiency.

(D) Reporting the Delinquency to HUD

The mortgagee must report delinquent accounts in HUD’s SFDMS using the appropriate Default Status Code and Default Reason Code, if the reason for default is known, and must continue reporting the Status Code until the delinquency is resolved.

(E) Required Notices to Borrower by 45th Day of Delinquency

Beginning on the 32nd Day, but no later than the 45th Day from the date payment was due, the mortgagee must send a:

- Notice of Homeownership Counseling Availability; and
- Servicemembers Civil Relief Act (SCRA) Disclosure (form HUD-92070).

The notices must be in writing and include all information required by federal regulation, including RESPA regulations on early intervention requirements for certain borrowers.

(1) Notice of Homeownership Counseling Availability

The notice must be in writing and include information on the availability of any homeownership counseling the mortgagee offers and either:

- the availability of homeownership counseling provided by HUD-approved nonprofit organizations that serve the homeowner’s residential area; or
- the HUD toll-free telephone number (1-800-569-4287) through which the homeowner can obtain a list of the counseling organizations.

(2) Servicemembers Civil Relief Act Disclosure

The mortgagee must send the form for the required notice of servicemember rights (form HUD-92070) to all Borrowers in default on a residential mortgage and must include the toll-free Military OneSource number to call if servicemembers or their dependents require further assistance (1-800-342-9647).
(F) Required Notices to Borrower by 60th Day of Delinquency

Beginning on the 32nd Day but, no later than the 60th Day from the date payment was due, the mortgagee must send the:

- Delinquency Notice Cover Letter; and
- “Save your Home – Tips to Avoid Foreclosure” pamphlet (form HUD-2008-5-FHA).

(1) Delinquency Notice Cover Letter

The mortgagee must send the “Save Your Home: Tips to Avoid Foreclosure” brochure with a cover letter that includes:

- highly visible information about any availability of language access services offered by the mortgagee for Borrowers with limited English proficiency (this information must be provided, at a minimum, in Spanish and must include an advisement to seek translation or other language assistance);
- the following information related to the mortgage:
  - number of late payments;
  - total amount of any late charges incurred;
  - the month of each late payment (e.g., June, July); and
  - the original due date of each late payment;
- the mortgagee’s mailing address and specific contact information for assigned personnel;
- a request for current Borrower financial information necessary for Loss Mitigation analysis;
- toll-free telephone numbers for Borrowers needing to contact the mortgagee’s loss mitigation and/or customer assistance personnel; and
- the toll-free telephone number for Borrowers seeking information on HUD-approved housing counseling agencies, (800) 569-4287, along with the toll-free Federal Information Relay Service number of (800) 877-8339 for Borrowers who may need a Telecommunication Device for the Deaf (TDD) to call the housing counseling line.

The mortgagee must send the cover letter and accompanying “Save your Home: Tips to Avoid Foreclosure” brochure (form HUD-2008-5-FHA) any time the mortgage becomes delinquent unless the beginning of the new delinquency occurs less than six months after a prior notice and pamphlet was mailed.

(2) “Save Your Home: Tips to Avoid Foreclosure” Brochure

The brochure (form HUD-2008-5-FHA) is available in English, Spanish, Chinese, and Vietnamese. Mortgagees may either obtain the brochure by accessing HUD’s Direct Distribution Center or reproduce electronic versions of the brochure at
their own expense. The mortgagee may not change the contents of the brochure in any way.

(G) Occupancy Inspection

If unable to reach the Borrower(s) by the 45th Day of delinquency, the mortgagee must perform a visual inspection of the mortgaged property to determine occupancy status.

(1) Definitions

An Occupancy Inspection is a visual inspection of a mortgaged property by the mortgagee to determine if the mortgaged property has become vacant or abandoned and to confirm the identity of any occupants.

An Occupancy Follow-Up is an attempt to communicate with the Borrower via letter, telephone, or other method of communication, other than on-site inspection, to determine occupancy when the mortgage remains in default after the initial inspection and the mortgagee has not determined the Borrower’s occupancy status.

(2) Standard

(a) Initial Occupancy Inspection

The mortgagee must perform the initial Occupancy Inspection no later than the 60th Day of delinquency when:

- the mortgage is in default;
- a payment is not received within 45 Days of the due date; and
- efforts to reach the Borrower or occupant have been unsuccessful.

(b) Follow-Ups and Continued Occupancy Inspections

If unable to determine the Borrower’s occupancy status through the initial Occupancy Inspection, the mortgagee must perform Occupancy Follow-Ups and, if necessary, Occupancy Inspections every 25-35 Days from the last inspection until the occupancy status is determined.

(c) Occupancy Inspections during Bankruptcy

When payments are not submitted as scheduled by a Borrower in bankruptcy, the mortgagee must contact either the bankruptcy trustee or the filing attorney for information concerning the status of the Borrower, to determine if an Occupancy Inspection is needed.
(d) Determination that the Property is Vacant or Abandoned

If the mortgagee determines through an Occupancy Inspection that the property is vacant or abandoned, the mortgagee must commence Vacant Property Inspections and take appropriate Property Preservation and Protection actions to secure and maintain the property.

(3) Required Documentation

The mortgagee must retain inspection reports and document the dates and methods of Occupancy Follow-Ups in the servicing file.

(H) Face-to-Face Interviews

The mortgagee must attempt a face-to-face interview with the Borrower no later than the 61st Day of delinquency, unless exempt under 24 CFR § 203.604(c). Mortgagees must adhere to the requirements of 24 CFR § 203.604 in conducting face-to-face interviews with delinquent Borrowers.

The mortgagee must ensure that the employee representing the mortgagee at face-to-face interviews with the Borrower has the authority to propose and accept reasonable repayment plans and/or is limited to actions within the realm of that authority. Where a mortgagee’s representative exceeds their authority by agreeing to a repayment plan at the time of the interview, the mortgagee must still accept the repayment plan agreed to by its representative, without regard as to whether the representative overstepped their authority.

(I) Reporting the Reason for the Default to HUD

The mortgagee must report the appropriate Default Reason Code for the default in FHA’s SFDMS by the 90th day of delinquency.

(J) Notification to All Parties to the Mortgage

The mortgagee must notify each Borrower, co-signer, and any other party requiring notice by state law that the mortgage is in default.

h. Vacant Property Inspections

The mortgagee must take reasonable actions to protect the value of the security until title can be conveyed to HUD, pursuant to 24 CFR § 203.377. HUD requires the following inspections for vacant or abandoned properties.
i. Occupancy Status and Date

The mortgagee must advise HUD when the mortgage property becomes vacant by reporting:

- the Occupancy Status Code; and
- the date when the mortgagee determined that the mortgage property became vacant.

ii. Initial Vacant Property Inspection

(A) Definition

An Initial Vacant Property Inspection is the first inspection performed by the mortgagee to ascertain the condition of a vacant or abandoned property.

(B) Standard

The mortgagee must perform the Initial Vacant Property Inspection on the date it takes physical possession of a vacant or abandoned property.

(C) Required Documentation

The mortgagee must retain inspection reports and photographs of the property in the servicing file.

iii. Vacant Property Inspection

(A) Definition

Vacant Property Inspections are ongoing inspections by the mortgagee of a vacant property in its physical possession.

(B) Standard

(1) Vacant Property Inspection Cycle

The mortgagee must perform Vacant Property Inspections every 25-35 Days after the Initial Vacant Property Inspection.

(2) Additional Vacant Property Inspections

In areas of high vandalism or where local ordinances require more frequent Vacant Property Inspections, mortgagees may perform Vacant Property Inspections more frequently than HUD’s 25-35 Day requirement and request reimbursement for these inspection costs.
(C) Required Documentation

The mortgagee must retain inspection reports and photographs of the property in the servicing file.

The mortgagee must retain any police reports and/or letters from a local law enforcement agency evidencing the need for additional protective measures.

iv. Damage to Vacant Properties

If the mortgagee failed to make an inspection of a vacant property as required, HUD will assume that any damage resulted from the mortgagee's failure to preserve and protect the property unless the mortgagee can prove that the damage occurred prior to the date the property became vacant.

v. Inspection Documentation Requirements

For all inspections, mortgagees must document the general condition of the property, as well as any actions taken to adequately protect and preserve the property.

At a minimum, the mortgagee must include on each inspection report the following items, where applicable:

- date of the inspection
- identity of the inspector
- Is the property occupied?
- Is the house locked?
- Is the grass mowed and/or are shrubs trimmed?
- Is there any apparent damage?
- Is any exterior glass broken?
- Are there any apparent roof leaks?
- Does the house contain Personal Property and/or debris?
- Are any doors or windows boarded?
- Is the house winterized?
- Are there any repairs necessary to adequately preserve and protect the property?

i. HUD’s Loss Mitigation Program

Mortgagees are required to evaluate loss mitigation options on all defaulted mortgages. Mortgagees must also comply with all laws, rules, and requirements applicable to HUD’s Loss Mitigation Program, including full compliance with the applicable requirements under the purview of the CFPB, including RESPA regulations on loss mitigation procedures.

i. Implementation of Loss Mitigation

In implementing HUD’s Loss Mitigation Program, the mortgagee must:
consider all reasonable means to address delinquency at the earliest possible time;
- adhere to the requirements for communication with Borrowers in default as set out in the Collection Communication Timeline;
- utilize HUD’s Loss Mitigation Options to avoid foreclosure, when feasible;
- report loss mitigation actions through SFDMS;
- initiate foreclosure within six months of default, unless a Loss Mitigation Option is being pursued;
- document all loss mitigation actions and retain all documentation used to make loss mitigation determinations;
- re-evaluate each mortgage monthly until reinstatement or completion of foreclosure; and
- retain sufficient documentation confirming compliance with loss mitigation requirements.

ii. No Waiver of Rights

The mortgagee must not include any language in any loss mitigation documents that requires Borrowers to waive their rights to be considered or approved for a Loss Mitigation Option.

iii. Eligibility Requirements

(A) Mortgage Status

Loss Mitigation Options are intended to provide relief for Borrowers who are in default, as defined in 24 CFR § 203.331.

(1) Home Retention Options

The mortgagee may consider Borrowers whose failure to perform continues for at least 61 Days (three months due and unpaid) for Special Forbearance (SFB) - Unemployment and Loan Modifications.

The mortgagee may consider Borrowers whose failure to perform continues for at least 91 Days (four months due and unpaid) for FHA-HAMP Partial Claims.

For Borrowers at risk of imminent default, the mortgagee must offer eligible Borrowers FHA-HAMP Loan Modifications.

(2) Home Disposition Options

The mortgagee may only consider Borrowers for Home Disposition Options in accordance with the Loss Mitigation waterfall if the cause of the default is incurable and the Borrower is unable to sufficiently replace lost income or reduce expenses to meet the mortgage obligation.
3. Default Servicing

(B) Owner Occupancy

(1) Standard for Home Retention Options

The mortgagee must ensure that the Borrower occupies the property as their Principal Residence in order to be eligible for any of the Home Retention Options.

(2) Standard for Home Disposition Options

The mortgagee may consider non-occupant Borrowers for Home Disposition Options when the subject property was not purchased as a rental investment or used as a rental for more than 18 months.

(3) Documentation for Home Disposition Options

The mortgagee must document the justification for approval of any non-occupant Borrowers for Home Disposition Options in the Claim Review File.

(C) Exceptions for Borrowers with Multiple FHA Mortgages

(1) Standard

Mortgagees may consider Loss Mitigation Options other than the DIL Option for those Borrowers who meet the eligibility requirements for policy exceptions listed in the Exceptions to the FHA Policy Limiting the Number of Mortgages per Borrower section.

(2) Required Documentation

The mortgagee must document the justification for any exceptions.

(D) Co-Insured Mortgages

The mortgagee must not offer any Loss Mitigation Option other than the SFB-Unemployment Option on co-insured mortgages until the 60th payment has been received.

(E) Vacant or Abandoned Properties

(1) Standard

The mortgagee may consider non-occupant Borrowers for Home Disposition Options only when the properties have been recently vacated by circumstances related to the default.
(2) Required Documentation

The mortgagee must document these circumstances in the Claim Review File.

iv. Loss Mitigation Review Process

(A) Servicemember Status

The mortgagee must offer eligible servicemember Borrowers mortgage protections under the SCRA and HUD regulations. See Servicing FHA-Insured Mortgages for Servicemember Borrowers.

(B) Loss Mitigation Requests

(1) Complete Loss Mitigation Requests

(a) Definition

A complete loss mitigation request is a request for loss mitigation assistance that contains all information the mortgagee requires from the Borrower in order to evaluate Loss Mitigation Options.

(b) Standard

The mortgagee must timely evaluate and respond to complete loss mitigation requests according to the timeframe requirements in Loss Mitigation during the Foreclosure Process.

(2) Requests for Additional Documents

When a mortgagee receives incomplete loss mitigation requests, the mortgagee must notify the Borrower in writing:

- which documents are needed for review; and
- when the documents must be sent back to the mortgagee.

This notice must include the required statement that the Borrower should consider contacting mortgagees of any other mortgages secured by the same property to discuss available Loss Mitigation Options.
(C) Evaluation of the Borrower’s Financial Condition

(1) Borrower’s Financial Information

(a) Standard

The mortgagee must obtain detailed financial information from the Borrower in order to evaluate them for Loss Mitigation Options. The mortgagee may accept financial information during a telephone interview.

(b) Required Documentation

The mortgagee must document receipt of financial information in the Claim Review File.

(c) Verification of Financial Information

The mortgagee must independently verify financial information by obtaining a credit report or other verification the mortgagee deems appropriate.

(2) Analysis of the Borrower’s Financial Condition

The mortgagee must analyze the Borrower’s current and future ability to meet the monthly mortgage obligation by estimating the Borrower’s assets and surplus income as follows:

- Step 1: Estimate the Borrower’s normal monthly living expenses (e.g., food, utilities, etc.), debt service on the mortgage, and other obligations, based on current information, and project for:
  - a period of three months; or
  - if review is for SFB - Unemployment Option, for the length of the SFB - Unemployment Agreement.
- Step 2: Estimate the Borrower’s anticipated monthly net income for the same period listed above, making necessary adjustments for income fluctuations.
- Step 3: Subtract expenses from income to determine the amount of surplus income available each month.
- Step 4: Divide surplus income by monthly net income to determine the Surplus Income Percentage. Surplus Income Percentage is defined as surplus income divided by monthly net take-home income. The Surplus Income Percentage is used in the mortgagee’s financial analysis to determine which Loss Mitigation Options are appropriate based on the Borrower’s income.

The mortgagee must ensure that the selected workout strategy reflects the Borrower’s ability to pay. The mortgagee must require Borrowers with sufficient
surplus income and/or other assets to reinstate the debt through a repayment strategy.

(D) Continuous Income for Loss Mitigation Evaluations

(1) Definition

Continuous income is income received by the Borrower that is reasonably likely to continue from the date of the mortgagee’s loss mitigation evaluation through at least the next 12 months.

(2) Standard

Continuous income includes the following:

- Employment Income (e.g., wages, salary, or self-employment earnings);
- Social Security;
- disability;
- veterans’ benefits;
- Child Support;
- survivor benefits;
- Pensions; and
- other documented income that is reasonably likely to continue from the date of the mortgagee’s loss mitigation evaluation through at least the next 12 months.

In determining the amount of continuous income available to a Borrower, the mortgagee must review the Borrower’s documented sources of income and expenses and calculate the Borrower’s surplus/deficit income or gross income necessary for applicable Loss Mitigation Options.

(E) 90-Day Review Requirement

(1) Definition

The 90-Day review is the mortgagee’s required evaluation, occurring no later than when three full monthly installments are due and unpaid, of a defaulted mortgage for appropriate Loss Mitigation Options.

(2) Standard

To comply with this Loss Mitigation review requirement, the mortgagee must:

- contact the Borrower to gather information about their circumstances, intentions, and financial condition; and
- attempt to complete its evaluation of the mortgage for all appropriate Loss Mitigation Options.
After its timely review of a Borrower’s loss mitigation request, the mortgagee must send a written Notice to Borrower after Loss Mitigation Review.

(3) Required Documentation

The mortgagee must document in the Claim Review File its aggressive efforts to reach each Borrower in default well in advance of the 90-Day Review deadline.

(F) Monthly Review

(1) Standard

The mortgagee must evaluate on a monthly basis all Loss Mitigation Options available for delinquent Borrowers.

(2) Required Documentation

The mortgagee’s servicing records must include monthly notations, documenting the mortgagee’s analysis and determination with respect to the appropriateness of any Loss Mitigation Option. If there has been no change in the Borrower’s circumstances, the mortgagee may note this in its records.

(G) Loss Mitigation Reporting

The mortgagee must report in SFDMS the Loss Mitigation Status Codes that accurately reflect the stage of loss mitigation review.

(H) Electronic Signatures

HUD will accept an electronic signature conducted in accordance with the Policy on Use of Electronic Signatures on HUD Loss Mitigation documents requiring signatures, unless otherwise prohibited by law.

(I) Notice to Borrower after Telephone Evaluation

If the mortgagee’s telephone evaluation indicates that the Borrower is not eligible for Loss Mitigation Options, the mortgagee must advise the Borrower in writing of this decision and allow the Borrower at least seven Days to submit additional information that may impact the mortgagee’s evaluation.

(J) Notice to Borrower after Loss Mitigation Review

After its timely review of a Borrower’s loss mitigation request, the mortgagee must send a written notice to the Borrower which indicates:
• the mortgagee’s determination as to whether or not the Borrowers qualify for a Loss Mitigation Option;
• the actual reason or reasons they have been denied for any Loss Mitigation Option; and
• the mortgagee’s points of contact and process for appeals or the escalation of cases.

(K) Loss Mitigation during Bankruptcy Proceedings

The mortgagee must comply with and seek relief, if appropriate, from the automatic stay. The mortgagee must obtain bankruptcy court approval on all loss mitigation actions prior to final execution or utilization.

(1) Bankruptcy Proceedings for which Borrower has an Attorney

The mortgagee must, upon receipt of notice of a bankruptcy filing:
• send information to the Borrower’s attorney, if any, indicating that loss mitigation may be available; and
• provide instruction sufficient to facilitate workout discussions including:
  o requirements for additional financial information documentation, if the bankruptcy petition does not include sufficient financial information for mortgagees to complete the loss mitigation evaluation before the bankruptcy plan is confirmed;
  o applicable timeframes; and
  o mortgagee contact information.

(2) Bankruptcy Pro Se (Borrower Does Not Have an Attorney)

Where the Borrower filed the bankruptcy pro se, the mortgagee must send to the Borrower information relating to the availability of Loss Mitigation Options, with a copy to the bankruptcy trustee. The mortgagee must ensure that this communication does not infer that it is in any way an attempt to collect a debt.

v. HUD’s Loss Mitigation Option Priority Waterfall

After evaluating the delinquent Borrower for Forbearance Plans, the mortgagee must evaluate the Borrower for utilization of HUD’s Loss Mitigation Options in the following priority order:
• Home Retention Options
  o SFB-Unemployment
  o Loan Modification
  o FHA-HAMP
• Home Disposition Options
  o PFS
  o DIL
The mortgagee must utilize the process in the following Loss Mitigation Home Retention Option Priority Waterfall to determine which, if any, Home Retention Options are appropriate for the Borrower.

| Initial Assistance Screens |  |
|---------------------------|--|---|---|
| Decison Point | Step 2 | No | Informal or Formal Forbearance/repayment plan |
|--|--|--|
| Step 1 | Household or Borrower(s) has experienced a verifiable loss of income or increase in living expenses? | Yes | Step 3 | Special Forbearance |
|--|--|--|
| Step 2 | One or more Borrowers receives continuous income in the form of Employment Income (e.g., wages, salary, or self-employment earnings), Social Security, disability, veterans’ benefits, Child Support, survivor benefits, and/or Pensions? | Yes | Step 4 | FHA-HAMP (Step 6) |
|--|--|--|
| Step 3 | Surplus income is at least $300 and greater than 15% of the Borrower’s net income? | Yes | Formal Forbearance/repayment plan for 6 months | Modification (Step 5) |
|--|--|--|
| Step 4 | 85% of surplus income is sufficient to cure arrears within 6 months? | No |  |

<p>| Modification (Requires Successful Completion of Trial Payment Plan) |  |
|---------------------------|--|---|---|</p>
<table>
<thead>
<tr>
<th>Decison Point</th>
<th>No</th>
<th>FHA-HAMP (Step 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 5</td>
<td>Modification would reduce monthly payment by at least the greater of 10% and $100?</td>
<td>Yes</td>
</tr>
<tr>
<td>--</td>
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</tr>
</tbody>
</table>
FHA Single Family Housing Policy Handbook

II. Title II Insured Housing Programs Forward Mortgages

B. Servicing

3. Default Servicing

<table>
<thead>
<tr>
<th>Step</th>
<th>FHA-HAMP (Requires Successful Completion of Trial Payment Plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td><strong>Decision Point</strong></td>
</tr>
<tr>
<td></td>
<td>Use of FHA-HAMP is to alleviate the burden of immediate repayment of arrears and to adjust monthly payments to a level sustainable by the household with current income. FHA-HAMP permits combining a Partial Claim and a Loan Modification.</td>
</tr>
<tr>
<td></td>
<td>Partial Claim: Total amount available is the lesser of: 1) 30% of the outstanding unpaid principal balance less any previous Partial Claims paid on this mortgage; and 2) the sum of:</td>
</tr>
<tr>
<td></td>
<td>• arreages;</td>
</tr>
<tr>
<td></td>
<td>• legal fees and foreclosure costs related to a canceled foreclosure action; and</td>
</tr>
<tr>
<td></td>
<td>• principal deferment (per below calculation).</td>
</tr>
<tr>
<td></td>
<td><strong>MODIFICATION:</strong></td>
</tr>
<tr>
<td></td>
<td>1. Calculate the target monthly payment:</td>
</tr>
<tr>
<td></td>
<td>A. Calculate 31% of gross income.</td>
</tr>
<tr>
<td></td>
<td>B. Calculate 80% of current Mortgage Payment.</td>
</tr>
<tr>
<td></td>
<td>C. Calculate 25% of gross income.</td>
</tr>
<tr>
<td></td>
<td>D. Take the greater of B and C.</td>
</tr>
<tr>
<td></td>
<td>E. Take the lesser of A and D.</td>
</tr>
<tr>
<td></td>
<td>2. Calculate the monthly payment on current loan balance at the market interest rate (not including arrears) and 360 months term.</td>
</tr>
<tr>
<td></td>
<td>3. If the result of Step 2 is lower than the result from Step 1E, then the Borrower is eligible for a standard modification at the market interest rate and if necessary a Partial Claim for arreages, legal fees, and foreclosure costs ONLY, but may not receive principal deferment; otherwise, go to Step 4.</td>
</tr>
<tr>
<td></td>
<td>4. Calculate the allowable principal deferment amount:</td>
</tr>
<tr>
<td></td>
<td>A. Reduce the loan balance used in Step 2 until the calculated Mortgage Payment reaches the target amount from Step 1 or else the maximum allowable principal deferment is reached per amount available as calculated above under Partial Claim.</td>
</tr>
<tr>
<td></td>
<td>If the final Mortgage Payment is greater than 40% of current income, and there is verifiable unemployment status, then the Borrower is eligible for a reduced payment option under the Special Forbearance. If there is no verifiable unemployment status and the Borrower has already been reviewed for retention options under the waterfall but, does not qualify for any (i.e., Borrower does not have sufficient surplus income or other assets that could repay the indebtedness), then the Borrower is eligible for disposition options.</td>
</tr>
</tbody>
</table>

* A stand-alone Partial Claim is permissible under FHA-HAMP if the Borrower’s (i) current interest rate is at or below market rate and (ii) the borrower’s current Mortgage Payment is at or below the targeted payment. In addition, a stand-alone modification is permissible under FHA-HAMP if a Mortgage Payment at or below the targeted payment can be achieved by re-amortizing the mortgage for 360 months at or below the market rate.

vi. Home Retention Options

(A) Forbearance Plans

Prior to utilizing HUD’s Loss Mitigation Options, the mortgagee must first evaluate the Borrower for both Informal and Formal Forbearance Plans.
(1) Definitions

Forbearance Plans are arrangements between a mortgagee and Borrower that may allow for a period of reduced or suspended payments and may provide specific terms for repayment.

Informal Forbearance Plans are oral agreements allowing for reduced or suspended payments for a period of three months or less.

Formal Forbearance Plans are written agreements executed by one or more of the Borrowers, allowing for reduced or suspended payments for a period greater than three months.

(2) Standard

The mortgagee may offer Informal and Formal Forbearance Plans to delinquent Borrowers who do not have verifiable losses of income or increases in living expenses.

Additionally, the mortgagee may offer a Formal Forbearance Plan as follows:

- If the mortgagee determines that 85 percent of the Borrower's surplus income is sufficient to bring the mortgage current within six months, the mortgagee may offer a Formal Forbearance Plan that provides for repayment within the six months.
- If the mortgagee determines that the Borrower is ineligible for Home Retention Options, the mortgagee may offer a Formal Forbearance plan that provides for repayment within a period of up to 18 months.

Informal and Formal Forbearances are not eligible for loss mitigation incentive payments.

(3) Formal Forbearance Reporting

The mortgagee must report in SFDMS the use of a Formal Forbearance.

(B) HUD Postponement of Principal Payments for Servicemembers

The mortgagee may, by written agreement with the Borrower, postpone for the period of military service and three months thereafter any part of the monthly mortgage that represents amortization of principal, pursuant to 24 CFR § 203.345.

The mortgagee must include in the agreement a provision for the resumption of monthly payments after such period, in amounts which will completely amortize the mortgage debt within the maturity, as provided in the original mortgage.
(C) Special Forbearance – Unemployment

(1) Definition

The SFB-Unemployment Option is a Home Retention forbearance Option available when one or more of the Borrowers of record has become unemployed and the loss of employment has negatively affected the Borrower’s ability to continue to make their monthly Mortgage Payment.

(2) Eligibility

(a) Defaulted Mortgage Status

The mortgage must meet the following conditions at the time the SFB-Unemployment Agreement is executed:

- be at least three months (61 Days) delinquent, but not more than 12 months due and unpaid; and
- not be in foreclosure when the SFB-Unemployment Agreement is executed.

(b) Borrower Qualifications

(i) Standard

The mortgagee must ensure that the Borrower meets the following eligibility requirements for an SFB-Unemployment Option:

- The Borrower has recently experienced a verified loss of income or increase in living expenses due to loss of employment.
- The Borrower must be an owner-occupant and will occupy the property as a Principal Residence during the term of the SFB-Unemployment agreement, unless an exception is granted.
- One or more Borrowers is not currently receiving continuous income or, alternatively, an analysis of the financial information under FHA-HAMP resulted in a Mortgage Payment greater than 40 percent of current gross monthly income and one of the Borrowers has a verifiable unemployment status.
- A Borrower has a verified unemployment status and:
  - no Borrower is currently receiving continuous income; or
  - an analysis of Borrower financial information under FHA-HAMP results in a Mortgage Payment greater than 40 percent of current gross monthly income.
(ii) Exception to Owner-Occupant Requirement

The mortgagee may offer an SFB-Unemployment Option to an unemployed Borrower when the mortgagee has knowledge that the mortgaged property is for sale or an assumption of the property is in process.

(iii) Required Documentation

The Borrower is required to provide supporting documentation of their unemployment.

(c) Property Condition

The mortgagee must conduct any review it deems necessary, including a property inspection, when the mortgagee has reason to believe that the physical conditions of the property adversely impact the Borrower’s use or ability to support the debt as follows:

- financial information provided by the Borrower shows large expenses for property maintenance;
- mortgagee receives notice from local government or other third parties regarding property condition; or
- property may be affected by a disaster event in the area.

If significant deferred maintenance costs contributed to the default, the SFB-Unemployment agreement may provide a period of mortgage forbearance during which repairs specified in the agreement will be completed at the Borrower’s expense. If the mortgagee's review identifies a property in extremely poor physical condition, an SFB-Unemployment Agreement without direct ties to property repair may not offer permanent resolution of the default.

(3) Review under the Loss Mitigation Home Retention Priority Waterfall

The mortgagee must assess the Borrower’s financial ability to repay their mortgage delinquency and must determine if the loss of employment is the major cause which has resulted in mortgage default.

The mortgagee must use the six-step process of the Loss Mitigation Home Retention Option Priority Waterfall to:

- determine that it is the Borrower of record who has experienced the loss of employment;
• determine the loss of employment has had a direct impact on the
  Borrower’s ability to make the monthly Mortgage Payment; and
• enable the mortgagee to determine a reasonable monthly Mortgage
  Payment while the Borrower is performing on the SFB-Unemployment
  Option. If eligible for the SFB-Unemployment Option, the Borrower is to
  be placed on a reasonable type of monthly Mortgage Payment even if the
  Borrower has a negative surplus amount.

Once the mortgagee’s review of the Borrower’s financials has been completed
and it has been determined that the SFB-Unemployment is the most appropriate
Option, the mortgagee will develop the SFB-Unemployment Agreement.

(4) Special Forbearance – Unemployment Agreement

(a) Definition

The SFB-Unemployment Agreement is a written agreement between a
mortgagee and the Borrowers, one or more of whom has become unemployed,
allowing for reduced and/or suspended Mortgage Payments.

(b) Standard

The mortgagee must prepare a SFB-Unemployment Agreement that provides
for the following:
• identifies the specific months for which the account is delinquent and
  notes the total arrearage that accrued prior to the beginning of the
  Agreement;
• suspends and/or reduces the agreed monthly Mortgage Payment;
• ensures that the repayment installments required under the terms of the
  agreement are based on the Borrower’s ability to pay;
• does not allow late fees to be assessed while the Borrower is
  performing under the terms of the SFB-Unemployment Agreement;
• should the Borrower’s financial circumstances change, the mortgagee
  may adjust the monthly payment based on an evaluation of the
  Borrower’s new financial information;
• does not allow the accrued arrearage to exceed the equivalent of 12
  months PITI (the 12 months of PITI for Adjustable Rate Mortgages
  (ARM), Graduated Payment Mortgages (GPM), and Growing Equity
  Mortgages (GEM) will be calculated by multiplying 12 times the
  monthly payments due on the date of default); and
• allows the Borrower to pre-pay the delinquency at any time.

The SFB-Unemployment Agreement will not include terms for reinstatement
because the mortgagee must re-evaluate the Borrower for more permanent
Loss Mitigation Options to cure a default once the Borrower acquires employment and/or the SFB-Unemployment Agreement expires.

(c) Required Documentation

The mortgagee must retain in the Claim Review File:
- evidence that the mortgagee analyzed the Borrower’s financial condition;
- evidence that the SFB-Unemployment Agreement is supported by the financial analysis; and
- a copy of the SFB-Unemployment Agreement, executed by at least one Borrower and by an authorized agent of the mortgagee.

(d) Effective Date

The Executed SFB-Unemployment Agreement date is the date the mortgagee executes the SFB-Unemployment Agreement.

The SFB-Unemployment Agreement is considered “executed” when:
- at least one of the Borrowers has signed and dated the agreement;
- the agreement has been returned to the mortgagee; and
- the authorized mortgagee representative has signed and dated the agreement as well.

A copy of the Executed Agreement must be in the Claim Review File and provided to HUD, upon request.

(e) Review of SFB-Unemployment Agreements

The mortgagee must review the Borrower’s continued eligibility for SFB-Unemployment on a monthly basis. The mortgagee must clearly document the Borrower’s compliance with the terms of the Agreement and must adjust the terms of the Agreement if there is a change in income.

(f) Re-Evaluation of the SFB-Unemployment Agreement

The mortgagee must review the Borrower’s continued eligibility for SFB-Unemployment or, alternatively, eligibility for other Loss Mitigation Options if the Borrower presents evidence that their financial circumstances have changed. The mortgagee must ensure that the re-evaluated SFB-Unemployment Agreement will not allow for the mortgage to become more than 12 months of PITI delinquent.
(g) Expiration of SFB-Unemployment Agreement

During the month in which the SFB-Unemployment Agreement is to expire, the mortgagee must evaluate the Borrower to determine if the Borrower qualifies for:

- an additional period of forbearance beyond the initial expiration, but not allowing for more than 12 months of delinquent PITI, due to continued unemployment; or
- a permanent Loss Mitigation Option.

The mortgagee must notify the Borrower, in writing, the results of the review, including the following information:

- whether or not they qualify for a Loss Mitigation Option;
- the reason for denial; and
- allowing the Borrower seven Days to submit additional information that may impact the mortgagee’s evaluation.

(5) Payment Application

The mortgagee may reduce and/or suspend the required monthly loan payment for the time period of the SFB-Unemployment Agreement.

The mortgagee must place payments submitted by the Borrower during the SFB-Unemployment period in a suspense or memo fund account which is to be identified as belonging to the Borrower. When the suspense funds total a full monthly payment, the mortgagee must apply the payment to the Borrower’s account.

If the Borrower does not complete the SFB-Unemployment Agreement, all funds held in suspense will be applied to the Borrower’s account in the order set forth in 24 CFR § 203.24.

(6) Foreclosure-Related Fees and Costs

The mortgagee may address foreclosure-related fees and costs due to a foreclosure cancellation/suspension through the qualification of a permanent Loss Mitigation Option or at the expiration of the SFB-Unemployment Agreement.

Under no circumstances will the Borrower be required to pay the mortgagee more than the foreclosure-related fees and costs the Department has identified as customary and reasonable. See Appendix IV – HUD Schedule of Standard Attorney Fees.
(7) Option Failure

An SFB-Unemployment Option is considered a failure if the Borrower:

- abandons the property;
- informs the mortgagee that the terms of the SFB-Unemployment Agreement will not be fulfilled; or
- allows two installments to become due and unpaid without any advisement to the mortgagee of any problems that prevented the Borrower from staying current under the terms of the SFB-Unemployment Agreement.

If the SFB-Unemployment Option fails, the mortgagee must initiate foreclosure or complete another Loss Mitigation Option. HUD provides an automatic 90-Day extension to the deadline to initiate foreclosure during which the mortgagee must take one of these actions.

(8) Special Forbearance Compensation

HUD offers mortgagees a $100 incentive as compensation for each SFB-Unemployment Agreement. Mortgagees with “A” Tier Ranking System (TRS) II scores will be eligible for an incentive of $200 per SFB-Unemployment claim.

(a) Standard

The mortgagee must file an SFB-Unemployment incentive claim within 60 Days of the execution date of the Agreement and may not file more than one SFB-Unemployment incentive claim per default due to the Borrower’s unemployment.

(b) Required Documentation

All documentation pertaining to qualifying the Borrower for the SFB-Unemployment Option must be retained in the Claim Review File and provided to HUD, upon request.

(D) Loan Modification

(1) Definition

A Loan Modification is a permanent change in one or more terms of a Borrower’s mortgage to allow the mortgage to be reinstated.

(2) Standard

A Loan Modification may include a change within the following:

- interest rate;
(3) Eligibility

The mortgagee must ensure that the Borrower is able to support the monthly mortgage debt after the terms and/or interest rate of the mortgage is modified.

(a) Defaulted Loan Status

The mortgagee must ensure that the mortgage meets the following eligibility criteria for an incentivized Loan Modification:

- three or more full monthly payments due and unpaid (61 Days delinquent);
- at least 12 months elapsed since the closing (or origination) date of the original mortgage, as evidenced on HUD’s system; and
- default due to a verified loss of income or increase in living expenses.

(b) Borrower Qualifications

The mortgagee must ensure that the Borrower meets the following eligibility criteria for a Loan Modification:

- The Borrower has recently experienced a verified loss of income or increase in living expenses.
- The Borrower has sufficient stable income (including continuous income) to support the monthly payment under the modified rate and/or term, although not sufficient to sustain the original mortgage and repay the arrearage.
- The surplus income is at least $300 and is at least 15 percent of the Borrower’s net income.
- 85 percent of the Borrower’s surplus income is insufficient to cure arrears within 6 months.
- The Borrower’s monthly PITI Mortgage Payment can be reduced by the greater of 10 percent of the original monthly Mortgage Payment amount and $100, using the Market Rate and amortizing the new mortgage over 30 years.
- The Borrower has successfully completed a three-month Trial Payment Plan based on the Loan Modification monthly Mortgage Payment amount.
- The mortgagee has not utilized a Loan Modification or FHA-HAMP for that Borrower in the previous 24-month period.
The Borrower must be an owner occupant who will occupy the property as their Principal Residence.

(i) Market Rate

Market rate is a rate that is no more than 25 bps greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30 year fixed-rate conforming mortgages (U.S. average), rounded to the nearest one-eighth of 1 percent (0.125 percent), as of the date a Trial Payment Plan is offered to a Borrower.

(ii) Market Rate Resources

The Weekly Primary Mortgage Market Survey results are published on the Freddie Mac website. The Federal Reserve Board includes the average 30 year survey rate in the list of Selected Interest Rates published weekly in its Selected Interest Rates – H.15 website.

(c) Property Condition

The mortgagee must conduct any review it deems necessary, including a property inspection, when the mortgagee has reason to believe that the physical conditions of the property adversely impact the Borrower’s use or ability to support the debt as follows:

- financial information provided by the Borrower shows large expenses for property maintenance;
- mortgagee receives notice from local government or other third parties regarding property condition; or
- property may be affected by a disaster event in the area.

(4) Review under the Loss Mitigation Home Retention Priority Waterfall

The mortgagee must use the six-step process of the Loss Mitigation Home Retention Option Priority Waterfall to:

- determine if the Borrower has the capacity to repay the arrearage through an Informal or Formal Forbearance Plan and/or SFB-Unemployment, before considering the Loan Modification Option; and
- reduce the monthly payment by the greater of 10 percent of the original monthly Mortgage Payment amount or $100, using the Market Rate and amortizing the new mortgage over 30 years.
(5) Trial Payment Plans

(a) Definition

A Trial Payment Plan is a payment plan for a minimum period of three months, during which the Borrower must make the agreed-upon consecutive monthly payments prior to final execution of the Loan Modification.

(b) Standard

A Borrower must successfully complete a Trial Payment Plan prior to executing a Loan Modification.

(c) Trial Payment Plan Terms

The mortgagee must ensure that the following apply to interest rates and monthly payment amounts under Trial Payment Plans:

- The interest rate for the Trial Payment Plan and the permanent Loan Modification must not be greater than market rate.
- The permanent market rate is established when the Trial Payment Plan is approved by the mortgagee.
- The established monthly trial payment must be the same or less than the permanent Loan Modification Payment.

(d) Trial Payment Plan – Application of Payments

The mortgagee must treat payments made under the Trial Payment Plan as partial payments, held in a suspense account and applied in accordance with HUD’s Partial Payments guidance and applicable federal regulations.

(e) Trial Payment Plan Start after 12 months after Origination

Where a Borrower may be eligible for a Loan Modification or FHA-HAMP Option, the Borrower may not begin a Trial Payment Plan until at least 12 months have elapsed since the origination date of the mortgage.

(f) Funds Remaining at the End of Trial Payment Period

For unapplied funds remaining at the end of the trial payment period that do not total a full PITI payment, the mortgagee must apply these funds to any calculated escrow shortage, to reduce any Partial Claims, or to reduce any amounts that would otherwise be capitalized onto the principal balance.
(g) **Trial Payment Plan Failure**

If a Borrower fails to successfully complete a Trial Payment Plan under a Loan Modification, the mortgagee must still re-evaluate the Borrower’s eligibility for other appropriate Loss Mitigation Options.

The Borrower has failed the Trial Payment Plan when either of the following occurs:

- the Borrower vacates or abandons the property; or
- the Borrower does not make a scheduled Trial Payment by the last Day of the month it was due.

(h) **Application of Funds after Trial Payment Plan Failure**

If the Borrower does not complete the Trial Payment Plan, the mortgagee must apply all funds held in suspense to the Borrower’s account in the established order of priority at 24 CFR § 203.24.

(i) **Review for Other Loss Mitigation Options**

**(i) Ineligibility for Home Retention Options**

If the mortgagee determines through analysis of the Borrower’s financial information the Borrower is not eligible for a Home Retention Option, the mortgagee must consider the Borrower for Home Disposition Options.

**(ii) Change in Financial Circumstances**

If the Borrower fails to complete a Trial Payment Plan, the Mortgagee may only consider Home Retention Options if the Borrower’s financial circumstances have changed since the mortgagee’s Loan Modification evaluation.

**(iii) No Change in Financial Circumstances**

If the Borrower fails to complete a Trial Payment Plan and the Borrower has not provided information regarding a change in their financial circumstances since the mortgagee’s Loan Modification evaluation, the mortgagee must evaluate the Borrower for Home Disposition Options prior to initiating foreclosure.

**(iv) Documentation of Changes in Financial Circumstances**

Borrowers must provide mortgagees with documentation supporting the change in their financial circumstances. The mortgagee must verify
changes in financial circumstances. For changes in employment, the mortgagee must verify using paystubs or a Verification of Employment.

(j) Trial Payment Plans during Foreclosure

The mortgagee must suspend foreclosure action during Trial Payment Plans. In the event a Borrower fails to make a payment required under a Trial Payment Plan, the mortgagee must review the Borrower for other appropriate loss mitigation actions before commencing or continuing a foreclosure.

An automatic 90-Day extension is provided in which the mortgagee must commence or recommence foreclosure or initiate another Loss Mitigation Option, should a Trial Payment Plan fail.

(6) Loan Modification Documents

The mortgagee must ensure that the mortgage is not in foreclosure at the time the Loan Modification documents are executed. The mortgagee must remove the mortgage from foreclosure prior to executing the Loan Modification documents.

HUD does not require a specific format for the Loan Modification documents; however, the mortgagee must use documents that conform to all applicable law.

(7) Loan Modification Provisions

The mortgagee must ensure that the Loan Modification fully reinstates the mortgage. The mortgagee must complete an escrow analysis of the mortgage. The mortgagee must not provide the Borrower with any cash from the Loan Modification. The mortgagee must comply with the following Loan Modification provisions.

(a) Interest Rate

The mortgagee must modify the mortgage into a fixed-rate mortgage. ARM, GPM and GEM mortgages may only be modified to fixed payment and fully amortizing mortgage.

At the mortgagee’s discretion, the mortgagee may reduce Note interest rates below market rate. Discount fees associated with rate reductions are not reimbursable. When increasing Note interest rates, the mortgagee must calculate the maximum interest allowable as 25 bps above the Freddie Mac Weekly Primary Mortgage Market.
(b) Modified Principal Balance

The mortgagee may modify the mortgage so that the modified principal balance exceeds the principal balance at origination and 100 percent LTV. The mortgagee must re-amortize the total unpaid amount due over 360 months from the due date of the first installment required under the modified mortgage. The mortgagee may include the following in the modified principal balance:

- arrearages for unpaid accrued interest (outstanding arrearages capitalized into the Loan Modification are not subject to the statutory limits);
- mortgagee advances for escrowed items; or
- related legal fees and foreclosure and bankruptcy costs for work actually performed and not higher than the foreclosure-related fees and costs the Department has identified as customary and reasonable.

The mortgagee must not capitalize costs to complete needed repairs as part of the Loan Modification agreement.

(8) FHA Mortgage Insurance Coverage and MIP

When the Loan Modification has been processed in accordance with HUD requirements, HUD will extend FHA Mortgage Insurance coverage to the new principal balance and will remain in force until the mortgage has been paid in full. The amount of MIP will continue to be based on the scheduled unpaid principal balance of the original loan, without taking into consideration delinquencies or prepayments, pursuant to 24 CFR § 203.261.

(9) Lien Status

The mortgagee must, if required by state law, record the Loan Modification documents to preserve the first-lien status of the modified FHA-insured mortgage.

(a) Subordination Request

If title to the property is encumbered with an FHA Title I mortgage and the mortgagee servicing the Title II mortgage has determined that a Subordination Agreement is necessary to ensure HUD’s first-lien status, the mortgagee may forward a subordination request to:

U.S. Department of Housing and Urban Development
Home Improvement Branch
451 7th Street, SW, Room 9272
Washington, DC 20410
For Partial Claims or Secretary-held mortgages, the mortgagee must contact HUD’s Loan Servicing Contractor.

(b) Subordination Notification

If title to the property is encumbered with an FHA Title I mortgage which has been assigned to the Secretary and the mortgagee servicing the Title II mortgage has determined that a Subordination Agreement is not needed to ensure HUD’s first-lien status, the mortgagee servicing the Title II mortgage may send a written notification to:

U.S. Department of Housing and Urban Development
Albany Financial Operations Center
52 Corporate Circle
Albany, NY 12203

(10) Disclosures

The mortgagee must comply with any disclosure or notice requirements applicable under state or federal law.

(11) Default following Loan Modification

If the mortgage becomes delinquent following a Loan Modification, the mortgagee must treat this as a new default and service the defaulted mortgage accordingly.

(12) Delivery of Loan Modification Documents to HUD

The mortgagee must deliver a copy of the Loan Modification documents to HUD when a Conveyance Claim is filed, or the mortgage is foreclosed following a Loan Modification.

(13) Foreclosure-related Fees and Costs

Where the mortgagee has incurred foreclosure-related fees and costs due to a foreclosure cancellation/suspension, the mortgagee may address those foreclosure fees and costs relating to the current default through a permanent Loss Mitigation Option.

The mortgagee must not require the Borrower, under any circumstances, to pay the mortgagee more than the foreclosure-related fees and costs the Department has identified as customary and reasonable. See Appendix IV – HUD Schedule of Standard Attorney Fees.
II. Title II Insured Housing Programs Forward Mortgages
B. Servicing

3. Default Servicing

(14) Loan Modification Incentive

HUD compensates mortgagees for the execution of a Loan Modification by all required Borrowers if:

- Loan Modification documents are executed within 60 Days of the Borrower’s successful completion of a Trial Payment Plan; and
- the mortgagee reports to HUD the characteristics of the Loan Modification.

(15) Non-Incentivized Loan Modifications

The mortgagee may modify mortgages that are in danger of imminent default. HUD does not offer compensation for these types of Loan Modifications. See Modifying a Performing Mortgage.

(16) Reporting of Loan Modification Terms

The mortgagee must report the characteristics of all modified mortgages, through FHAC and SFDMS, if the loan is in default. For non-incentivized modifications of performing mortgages, the mortgagee must report the characteristics of the Loan Modification in FHAC.

(E) FHA-HAMP

(1) Definition

The FHA-HAMP Option is a Loss Mitigation Option using a Loan Modification and/or Partial Claim to allow the mortgage to be reinstated, by establishing an affordable monthly payment and providing for principal deferment as needed, when the cause of default is permanent or long term.

A Partial Claim is FHA’s reimbursement of mortgagee advancement of funds on behalf of the Borrower in an amount necessary to assist in reinstating the delinquent mortgage under the FHA-HAMP Option.

(2) Eligibility

(a) Mortgage Status

(i) Defaulted Mortgage

The mortgagee must ensure that the mortgage meets the following eligibility criteria for an FHA-HAMP Option:

- four or more full monthly Mortgage Payments are due and unpaid (91 Days delinquent);
3. Default Servicing

- 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 the Borrower has paid a minimum of four Mortgage Payments on the mortgage;
- a minimum of four Mortgage Payments have been paid by the Borrower on the current mortgage;
- default is due to a verified loss of income or increase in living expenses; and
- the mortgage must not be in foreclosure at the time the FHA-HAMP documents are executed.

(ii) Mortgage in Imminent Default

To modify a mortgage facing imminent default under the FHA-HAMP Option, the mortgagee must ensure that the following conditions are met:

- at least 12 months elapsed since the closing date of the original mortgage, as evidenced on HUD’s Neighborhood Watch system;
- a minimum of four Mortgage Payments have been paid by the Borrower on the current mortgage;
- imminent default due to a verified loss of income or other hardship as defined in Imminent Default; and
- the Borrower provides third party documentation regarding the cause of their imminent default.

(iii) FHA Streamline Refinance Mortgage

If the mortgage is an FHA Streamline Refinance, the mortgagee may use previous payment history on the prior FHA mortgage to determine whether the Borrower met the minimum requirement for four Mortgage Payments. A Streamline Refinance or change in FHA Case Numbers will not reset the 30 percent maximum Partial Claim statutory limit.

(b) Borrower Qualifications

The mortgagee must ensure that the Borrower meets the following eligibility criteria for the FHA-HAMP Option:

- The Borrower has recently experienced a verified loss of income or increase in living expenses and each Borrower has completed and submitted a signed hardship affidavit attesting to and describing the hardship.
- The Borrower has sufficient, stable income (including continuous income) to support the monthly payment under the modified rate and/or term, although not sufficient to sustain the original mortgage and repay the arrearage.
The mortgagee’s calculations show that the resulting monthly Mortgage Payment not exceeding 40 percent of the Borrower’s gross monthly income can be offered, provided that either:

- the Borrower does not have surplus income of at least the greater of $300 and 15 percent of the Borrower’s net income; or
- 85 percent of the Borrower’s surplus income is insufficient to cure arrears within six months and the Borrower’s monthly PITI Mortgage Payment cannot be reduced by the greater of 10 percent of the original monthly Mortgage Payment amount and $100.

- The Borrower has successfully completed a Trial Payment Plan based on the Loan Modification monthly Mortgage Payment amount.
- The mortgagee has not utilized FHA-HAMP for that Borrower in the previous 24-month period.

The Borrower must be an owner-occupant who is occupying the property as a Principal Residence. FHA-HAMP may not be used as a means to reinstate a mortgage prior to sale or assumption.

(c) Property Condition

The mortgagee must conduct any review it deems necessary, including a property inspection, when the mortgagee has reason to believe that the physical conditions of the property adversely impact the Borrower’s use or ability to support the debt as follows:

- financial information provided by the Borrower shows large expenses for property maintenance;
- mortgagee receives notice from local government or other third parties regarding property condition; or
- property may be affected by a disaster event in the area.

(3) Review under the Loss Mitigation Home Retention Priority Waterfall

The mortgagee must use the six-step process of the Loss Mitigation Home Retention Option Priority Waterfall to:

- project the Borrower’s surplus monthly net income for a minimum of three months;
- determine if the Borrower has the capacity to repay the arrearage through a Formal Forbearance and/or SFB-Unemployment, Loan Modification, before considering the FHA-HAMP Option; and
- determine whether FHA-HAMP is appropriate for a Borrower whose surplus income is negative, but the resulting FHA-HAMP Mortgage Payment is 40 percent or less of the Borrower’s gross monthly income.
(4) FHA-HAMP

The mortgagee may not require the Borrower to contribute cash for use of these Options and the Borrower must not receive any cash from the FHA-HAMP Option.

See Loan Modification Provisions for interest rate and principal balance requirements for FHA-HAMP Loan Modifications.

(a) Stand-Alone FHA-HAMP Loan Modification

The mortgagee may offer a stand-alone FHA-HAMP Loan Modification as an appropriate Loss Mitigation Option if the following three criteria are met:

- The targeted monthly payment can be achieved without the use of a FHA-HAMP Partial Claim.
- The modified payment is 40 percent or less of the Borrower’s gross monthly income ratio and the total value of all existing Partial Claims is at the statutory maximum.
- The Borrower meets all requirements of the FHA-HAMP Option.

(b) Stand-Alone FHA-HAMP Partial Claim

The mortgagee may offer a stand-alone FHA-HAMP Partial Claim as an appropriate Loss Mitigation if the following criteria are met:

- The Borrower’s current interest rate is at or below the market rate.
- The Borrower has been delinquent for at least four months (91 Days delinquent), per 24 CFR § 203.371.
- The Borrower’s current Mortgage Payment is at or below the targeted monthly payment.
- FHA-HAMP Partial Claim will not exceed the 30 percent maximum statutory limit.
- The Borrower meets all requirements of the FHA-HAMP Option.

(i) Statutory Maximum for Partial Claims

When a Borrower has qualified for a previous Partial Claim, the mortgagee must determine the statutory maximum of 30 percent of the outstanding unpaid principal balance at the time of the previous Partial Claim to accurately calculate the amount available for a subsequent FHA-HAMP Partial Claim.

(ii) Interest on Partial Claims

No interest will accrue on the Partial Claim. HUD will not require payment on the Partial Claim until:
III. Title II Insured Housing Programs Forward Mortgages

B. Servicing

3. Default Servicing

- the maturity of the FHA-HAMP mortgage;
- a sale of the property; or
- a pay-off or the refinancing of the FHA-HAMP mortgage.

(c) Combination of FHA-HAMP Loan Modification and the FHA-HAMP Partial Claim

The mortgagee may utilize an FHA-HAMP Loan Modification and FHA-HAMP Partial Claim together when establishing an affordable monthly payment that requires a Partial Claim in an amount needed to cover:

- arrearages;
- legal fees and foreclosure costs; and
- principal deferment.

(5) Capitalization of Delinquency in FHA-HAMP Loan Modification and Partial Claim

The mortgagee must include the following in the FHA-HAMP Loan Modification:

- arrearages for unpaid accrued interest (outstanding arrearages capitalized into the Loan Modification are not subject to statutory limits on Partial Claims);
- mortgagee advances for escrowed items; and
- related legal fees and foreclosure and bankruptcy costs for work actually performed (under no circumstances will the Borrower be required to pay the mortgagee more than the legal fees and foreclosure costs actually incurred as of the date of the foreclosure cancellation).

The mortgagee must not capitalize costs to complete needed repairs as part of the FHA-HAMP agreement.

(6) FHA-HAMP Trial Payment Plans

(a) Trial Payment Plans

The mortgagee must ensure that the Borrower successfully completes a Trial Payment Plan, prior to executing any FHA-HAMP Option, as follows:

- A Borrower whose mortgage is in default must complete a three-month Trial Payment Plan.
- A Borrower facing imminent default must complete a minimum four-month Trial Payment Plan.

See Trial Payment Plans for required terms and procedures.
(b) Trial Payment Plan – Application of Payments

Under the FHA-HAMP Option, the mortgagee must treat the trial payments made under the Trial Payment Plan as partial payments and place them in the Borrower’s suspense account, to be applied in accordance with HUD’s Partial Payments guidance and applicable federal regulations.

The mortgagee may apply trial payments towards:
- the unpaid principal balance when calculating the FHA-HAMP Loan Modification mortgage amount; or
- the FHA-HAMP Partial Claim amount, as long as the Partial Claim amount does not reduce the mortgage to less than four months due and unpaid at the time the mortgagee submits their incentive claim.

(7) FHA-HAMP Loan Modification Documents

The mortgagee must ensure that the mortgage is not in foreclosure at the time the FHA-HAMP Loan Modification documents are executed. The mortgagee must remove the mortgage from foreclosure prior to modification. See Loss Mitigation during the Foreclosure Process.

FHA does not provide a model for FHA-HAMP Loan Modification Documents, but the mortgagee must ensure the mortgage remains in first lien position and be legally enforceable.

(8) FHA-HAMP Partial Claim Documentation and Delivery Requirements

(a) Required Documentation for FHA-HAMP Partial Claim

The Borrower must execute a Promissory Note and Subordinate Mortgage, to be recorded by the mortgagee. The Partial Claim Note and Mortgage must include the provisions of HUD’s model Partial Claim Promissory Note and Partial Claim Subordinate Mortgage as modified per state law.

(b) Model Subordinate Note Form

FHA Case No. ____________

PROMISSORY NOTE

[Date]

[Property Address]
1. PARTIES

“Borrower” means each person signing at the end of this Note, and the person’s successors and assigns. “Secretary” or “Lender” means the Secretary of Housing and Urban Development and its successors and assigns.

2. BORROWER’S PROMISE TO PAY

In return for a loan received from Lender, Borrower promises to pay the principal sum of ________________ Dollars (U.S. $_________), to the order of the Lender.

3. PROMISE TO PAY SECURED

Borrower’s promise to pay is secured by a mortgage, deed of trust or similar security instrument that is dated the same date as this Note and called the “Security Instrument.” The Security Instrument protects the Lender from losses, which might result if Borrower defaults under this Note.

4. MANNER OF PAYMENT

(A) Time

On ____________, [insert maturity date of insured primary mortgage] or, if earlier, when the first of the following events occurs:

(i) Borrower has paid in full all amounts due under the primary Note and related mortgage, deed of trust or similar Security Instruments insured by the Secretary, or

(ii) The maturity date of the primary Note has been accelerated, or

(iii) The primary Note and related mortgage, deed of trust or similar Security Instrument are no longer insured by the Secretary, or

(iv) The property is not occupied by the purchaser as his or her principal residence.

(B) Place

Payment shall be made at the Office of Housing FHA-Comptroller, Director of Mortgage Insurance Accounting and Servicing, 451 Seventh Street, SW, Washington, DC 20410 or any such other place as Lender may designate in writing by notice to Borrower.

5. BORROWER’S RIGHT TO REPAY

Borrower has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty. If Borrower makes a partial prepayment,
there will be no changes in the due date or in the amount of the monthly payment unless Lender agrees in writing to those changes.

6. WAIVERS

Borrower and any other person who has obligations under this Note waive the rights or presentment and notice of dishonor. “Presentment” means the right to require Lender to demand payment of amounts due. “Notice of dishonor” means the right to require Lender to give notice to other persons that amounts due have not been paid.

7. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety or endorser of this Note is also obligated to do these things. Any person who takes over these obligations, including the obligations of a guarantor, surety or endorser of this Note, is also obligated to keep all of the promises made in this Note. Lender may enforce its rights under this Note against each person individually or against all signatories together. Any one person signing this Note may be required to pay all the amounts owed under this Note.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Note.

___________________________(SEAL)
Borrower

___________________________(SEAL)
Borrower

(c) Model Subordinate Mortgage Form

Instructions for Partial Claim Mortgage Form
Language Preceding Uniform Covenants
This is a Model Subordinate Mortgage Form. Mortgagees must review this form and make modifications as needed to fit applicable state and local requirements.

Uniform Covenants
Paragraphs 1-6 should have the heading “Uniform Covenants.” The text of these Paragraphs must be used as presented in the Model Subordinate Mortgage Form without any change. If change is needed to meet requirements of state or local law, the mortgagor must request and receive written approval from HUD via the loan servicing contractor.

Non-Uniform Covenants
The form should designate the paragraphs beginning with Paragraph 7 “Non-Uniform Covenants.” Any special language or notices required by applicable law should appear following the non-uniform covenants provided in the Model.

Signatures
Witness lines may be omitted if state and local law do not require witnesses for mortgages.

FHA Case No. ____________

PARTIAL CLAIM MORTGAGE

THIS SUBORDINATE MORTGAGE (“Security Instrument”) is given on , 20 . The Mortgagor is ___________________________________________
Whose address is ____________________________________________
(“Borrower”). This Security Instrument is given to the Secretary of Housing and Urban Development, and whose address is 451 Seventh Street, SW, Washington, DC 20410 (“Lender”). Borrower owes Lender the principal sum of ________ Dollars (U.S. $______). This debt is evidenced by Borrower’s note dated the same date as this Security Instrument (“Note”), which provides for the full debt, if not paid earlier, due and payable on __________ . This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, and all renewals, extensions and modifications of the Note; (b) the payment of all other sums, advanced under Paragraph 7 to protect the security of this Security Instrument; and (c) the performance of Borrower’s covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower does hereby mortgage, warrant, grant and convey to the Lender, with the power of sale the following described property located in ________ County, [State]:

which has the address of 
[Street]
[City], [State] [Zip Code], (“Property Address”);

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by
BORROWER COVENANTS that Borrower is lawfully seized of the estate hereby conveyed and has the right to mortgage, grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances or record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

Borrower and Lender covenant agree as follows:

UNIFORM COVENANTS.

1. Payment of Principal. Borrower shall pay when due the principal of the debt evidenced by the Note.

2. Borrower Not Released; Forbearance By Lender Not a Waiver. Extension of the time of payment of the sums secured by this Security Instrument granted by Lender to any successor in interest of Borrower shall not operate to release the liability of the original Borrower or Borrower’s successor in interest. Lender shall not be required to commence proceedings against any successor in interest or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or Borrower’s successors in interest. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

3. Successors and Assigns Bound; Joint and Several Liability; Co-signers. The covenants and agreements of this Security Instrument shall bind and benefit the successors and assigns of Lender and Borrower. Borrower’s covenants and agreements shall be joint and several. Any Borrower who co-signs this Security Instrument but does not execute the Note: (a) is co-signing this Security Instrument only to mortgage, grant and convey that Borrower’s interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower may agree to extend, modify, forbear or make any accommodations with regard to the term of this Security Instrument or the Note without that Borrower’s consent.
4. **Notices.** Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designates by notice to Lender. Any notice to Lender shall be given by first class mail to: Department of Housing and Urban Development, Attention: Single Family Notes Branch, 451 Seventh Street, SW, Washington, DC 10410 or any address Lender designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.

5. **Governing Law; Severability.** This Security Instrument shall be governed by Federal law and the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Security Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To this end the provisions of this Security Instrument and the Note are declared to be severable.

6. **Borrower’s Copy.** Borrower shall be given one conformed copy of the Note and of this Security Instrument.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

7. **Acceleration; Remedies.** [State specific language]

If the Lender’s interest in this Security Instrument is held by the Secretary and the Secretary requires immediate payment in full under Paragraph 4 of the Subordinate Note, the Secretary may invoke the nonjudicial power of sale provided in the Single Family Mortgage Foreclosure Act of 1994 (“Act”) (12 U.S.C. § 3751 et seq.) by requesting a foreclosure commissioner designated under the Act to commence foreclosure and to sell the Property as provided in the Act. Nothing in the preceding sentence shall deprive the Secretary of any rights otherwise available to a Lender under this paragraph or applicable law.

BY SIGNING BELOW, Borrower accepts and agrees to the terms contained in this Security Instrument and in any rider(s) executed by Borrower and recorded with it.

Witness:

________________________  ______________________(SEAL)

Borrower
(d) Recordation of FHA-HAMP Partial Claim Documents

The mortgagee must submit executed FHA-HAMP Partial Claim security instruments for recordation within five business days from the date of receipt from the Borrower or, where HUD execution is required, from HUD.

The submission of the security instruments is to be completed prior to filing the FHA-HAMP incentive claim with HUD.

(e) Reconciliation of Partial Claim Proceeds to Promissory Note Amounts

In the event the mortgagee miscalculated the Partial Claim amount, resulting in an overpayment to the mortgagee, the mortgagee must remit the overpaid amount immediately to HUD’s Servicing Contractor.

In the event the mortgagee claimed less than the actual Partial Claim Note amount, the mortgagee must absorb the cost of the miscalculation.

(f) Delivery of Partial Claim Documents

The mortgagee must deliver the original Promissory Note and recorded Subordinate Mortgage to HUD via HUD’s Servicing Contractor no later than six months from the execution date of the Note and Mortgage. The mortgagee must include in a cover letter, the FHA Case Number related to the documents that are being delivered to HUD’s Servicing Contractor. HUD’s Servicing Contractor will return a copy of the cover letter acknowledging receipt of the documents or noting any discrepancies.

When HUD has received Partial Claim documents that do not fully support the amount claimed by the mortgagee, HUD will consider the documents incomplete and, unless corrected, the submission will not satisfy the six-month deadline for the mortgage to provide complete and accurate Partial Claim documents.
(g) Requests for Extensions of Time for Delivery of Partial Claim Documents

The mortgagee may request an extension of time by submitting the request to the NSC for HUD approval via Extensions and Variances Automated Requests System (EVARS) when:

- Partial Claim document delivery has been delayed due to events beyond the mortgagee’s control; or
- circumstances have occurred preventing the mortgagee from timely delivery.

The mortgagee must check Box 7, “Unable to submit recorded partial claim mortgage within 6 months of execution,” enter the number of Days needed to meet HUD’s delivery requirements, and indicate the reason for the delay in “Basis for Extension Request.”

(h) Reimbursement of Full FHA-HAMP Partial Claim Amount

The mortgagee must reimburse the following amounts if the mortgagee fails to provide HUD with the Original Promissory Note and security instruments related to the Partial Claim within the prescribed deadlines, pursuant to 24 CFR § 203.371(d):

- the full claim amount (insurance benefits consisting of the arrearage, principal deferment if necessary, and any HUD-allowed costs related to the default); and
- the compensation fee.

HUD will issue a Demand Letter for the full reimbursement of all amounts associated with overdue Partial Claim documents.

(i) Servicing of FHA-HAMP Partial Claims

The mortgagee remains responsible for servicing of the FHA-HAMP Partial Claim until the security interests are legally recorded in the appropriate jurisdiction and delivered to HUD.

Mortgagees must notify HUD when the first mortgage is being paid in full or refinanced in order for HUD to provide a payoff figure on the FHA-HAMP Partial Claim. HUD’s Servicing Contractor must be contacted to request a payoff quote on the outstanding FHA-HAMP Partial Claim.

(j) Repayment Terms

The following repayment terms must apply:

- the Note is interest-free;
no monthly or periodic payments are required; however, Borrowers may voluntarily submit partial payments;
the Note is due at the earlier of 1) the payoff of the first mortgage, or 2) when the Borrower no longer owns the property;
there is no prepayment penalty;
a Borrower is only eligible to apply for an MIP refund when the Partial Claim Note has been paid in full;
the Partial Claim Note and security documents must be payable to HUD; and
voluntary payments or prepayments should be delivered via a cashier’s check or other certified funds to HUD’s Secretary-Held Assets Servicing Contractor (Servicing Contractor).

(9) Lien Status

If required by state law to maintain the first-lien status, the mortgagee must record the FHA-HAMP documents.

(a) Subordination Request

If title to the property is encumbered with an FHA Title I mortgage and the mortgagee servicing the Title II mortgage has determined that a Subordination Agreement is necessary to ensure HUD’s first-lien status, the mortgagee may forward a subordination request to:

U.S. Department of Housing and Urban Development
Home Improvement Branch
451 7th Street, SW, Room 9272
Washington, DC 20410

For Partial Claims or Secretary-held mortgages, the mortgagee must contact HUD’s Loan Servicing Contractor.

(b) Subordination Notification

If title to the property is encumbered with an FHA Title I mortgage which has been assigned to the Secretary and the mortgagee servicing the Title II mortgage has determined that a Subordination Agreement is not required to ensure HUD’s first-lien status, the servicing mortgagee of the Title II mortgage may send a written notification to:

U.S. Department of Housing and Urban Development
Albany Financial Operations Center
52 Corporate Circle
Albany, NY 12203
(10) Option Failure

(a) Option Failure as New Default

If the mortgage becomes delinquent following use of the FHA-HAMP Option, the mortgagee is to treat this as a new default and service the defaulted mortgage accordingly.

(b) Delivery of FHA-HAMP Documents to HUD

If the mortgage is foreclosed following use of the FHA-HAMP Option, the mortgagee must deliver a copy of the FHA-HAMP Loan Modification documents to HUD when a conveyance claim is filed. Any amounts claimed for legal work for an incomplete foreclosure must be for work actually performed, and in no case will HUD reimburse attorney’s fees in excess of the HUD schedule of standard attorney fees as stated in Appendix IV – HUD Schedule of Standard Attorney Fees.

(11) FHA-HAMP Compensation

HUD offers mortgagees compensation for use of the FHA-HAMP Option if:

- the permanent FHA-HAMP documents are executed within 60 Days of the Borrower’s successful completion of their Trial Payment Plan; and
- when a Partial Claim is used, the Partial Claim compensation claim is submitted within 60 Days of the execution date of the Promissory Note and Mortgage.

In cases where the mortgagee missed the 60-Day deadline, the mortgagee must still report the characteristics of the FHA-HAMP Loan Modification.

(12) Reporting of FHA-HAMP Loan Modification Terms

When an FHA-HAMP Loan Modification is used, the mortgagee must report the characteristics of the modified mortgage, whether or not the mortgagee is eligible for an incentive for that modification, through FHAC and SFDMS. For non-incentivized modifications of performing mortgage, the mortgagee must report the characteristics of the Loan Modification in FHAC.
vii. Home Disposition Options

(A) Pre-foreclosure Sales

(1) Definitions

A Pre-foreclosure Sale (PFS) is a Loss Mitigation Home Disposition Option that allows the Borrower to sell their home at Fair Market Value (FMV) and use the sale proceeds to satisfy the mortgage debt even if the proceeds are less than the amount owed. There are three types of PFS transactions:

- Streamlined PFS transactions
- Streamlined PFS transactions for servicemembers with Permanent Change of Station (PCS) Orders
- Standard PFS transactions

(2) Eligibility

(a) Definitions

A Streamlined PFS is a PFS Option that does not require verification of hardship or the obtaining of a complete loss mitigation request.

A Streamlined PFS for servicemembers with PCS Orders is a Streamlined PFS that may be offered to servicemembers who must relocate to a new duty station at least 50 miles away from their existing residence, without the mortgagee verifying hardship or obtaining a complete loss mitigation request.

A Standard PFS Option is a PFS Option available for owner-occupant Borrowers who are experiencing a hardship affecting their ability to sustain their mortgage, as determined by the Deficit Income Test (DIT) and:

- are in default; or
- are less than 30 Days past due but at risk of imminent default due to a hardship as described in Imminent Default, including distant employment transfer/relocation greater than 50 miles one way from the Borrower’s current Principal Residence to be closer to employment.

(b) Defaulted Mortgage Status

The mortgagee may accept applications for the PFS Option from Borrowers who are in default or who are current but facing imminent default. However, on the date the PFS closes occurs, the mortgage must be in default status (minimum 31 days delinquent).
(c) **Borrower Eligibility**

(i) **Streamlined PFS**

**Standard**

The mortgagee must ensure that non-owner-occupant Borrowers meet the following requirements:

- Borrower(s) are 90 Days or more delinquent on their FHA-insured mortgage as of the date of the mortgagee’s review; and
- each Borrower has a credit score of 620 or below.

The mortgagee must ensure that owner-occupant Borrowers meet the following requirements:

- Borrower(s) are 90 Days or more delinquent on their FHA-insured mortgage as of the date of the mortgagee’s review;
- each Borrower has a credit score of 620 or below; and
- Borrowers must have been reviewed and defaulted or deemed ineligible for Loss Mitigation Home Retention Options as follows:
  - the Borrower has failed a Trial Payment Plan within the last six months;
  - the Borrower has failed on an FHA-HAMP or Standard (rate-and-term) Loan Modification within the last two years;
  - the Borrower has been deemed ineligible for a permanent Loss Mitigation Home Retention Option (Standard Loan Modification, FHA-HAMP, or Formal Forbearance) or SFB - Unemployment;
  - the Borrower received a SFB - Unemployment but did not otherwise qualify for a permanent Loss Mitigation Home Retention Option by the end of the Special Forbearance period; or
  - the Borrower has been deemed eligible for and offered a Loss Mitigation Home Retention Option. However, the Borrower has a credit score below 580 and provides written documentation that they choose not to accept the Loss Mitigation Home Retention Option offered by the mortgagee.

**Eligible Properties**

The mortgagee may offer the Streamlined PFS process for all FHA-insured properties, provided that all Borrowers meet all program requirements. Such properties may be vacant but cannot be condemned.
(ii) Streamlined PFS for Servicemembers with PCS Orders

Standard

The mortgagee must ensure that servicemembers meet the following requirements for a Streamlined PFS for servicemembers with PCS Orders:

- The servicemember has PCS Orders to relocate to a duty station at least 50 miles away from their existing residence and provides the mortgagee with a copy of such orders.
- The servicemember submits an affidavit certifying that:
  - the property securing the FHA-insured mortgage is or was their Principal Residence when the PCS orders were issued; and
  - new permanent housing has been or will be obtained as a result of the orders.

Eligible Properties

The mortgagee may offer the Streamlined PFS process for all FHA-insured properties, provided that all Borrowers meet all program requirements. Such properties may be vacant, but cannot be condemned.

(iii) Standard PFS

Standard

The mortgagee must first assess whether the Borrower meets the requirements of a Streamlined PFS Option, prior to reviewing the Borrower for a Standard PFS.

Imminent Default Documentation

When approving a Borrower for a Standard PFS based on the Borrower’s imminent default, the mortgagee’s servicing file must include the following:

- evidence of the Borrower’s imminent default hardship(s); and
- evidence that the DIT indicates that Loss Mitigation Home Retention Options are not viable for the Borrower.

(iv) Deficit Income Test for Standard PFS

Definition

The DIT is a test used to determine if a Borrower can sustain their mortgage. In performing the DIT, total monthly expenses are subtracted from total monthly net income.
Verification of Income and Expenses

For Standard PFS transactions, to determine a Borrower’s income and expenses for the DIT, the mortgagee must:

- verify the Borrower’s monthly net income by obtaining one of the following:
  - at least two of the Borrower’s most recent pay stubs or, if self-employed, the most recent quarterly or year-to-date profit and loss statement, compiled by a Certified Public Accountant (CPA);
  - the Borrower’s Social Security Income (SSI) statements and/or disability payment statements, if applicable; or
  - the Borrower’s most recent Form W-2, Form 1099, or federal tax return; and

- verify the Borrower’s monthly expenses by ensuring that all installment debts on the Borrower’s credit report are factored into the DIT along with any other expenses that are supported by bills, payment receipts, and/or the standard payment amounts under an Internal Revenue Service (IRS) Index (such as the IRS Collection Financial Standards). For large past-due balances or for accounts included in bankruptcy proceedings, the mortgagee should refer to the minimum monthly payment required prior to the delinquency when using the DIT.

DIT Results

A DIT yielding a negative amount indicates that the Borrower’s expenses exceed their income each month and thus a PFS may be an appropriate Loss Mitigation Option for the Borrower.

A positive DIT amount does not disqualify a Borrower from the PFS Program if that Borrower was previously denied for use of Loss Mitigation Home Retention Options.

(v) Exceptions for Non-Owner Occupants in Streamlined PFS Transactions

HUD authorizes mortgagees to grant exceptions to non-occupant Borrowers when the following can be demonstrated:

- Need to vacate: the non-occupancy was related to the cause of default; or
- Not purchased/used as rental: The subject property was not purchased as a rental or used as a rental for more than 18 months prior to the Borrower’s acceptance into the PFS Program.
(vi) Corporations or Partnerships Requesting PFS Option

The mortgagee must submit a request for approval to the NSC via EVARS when a corporation or partnership requests to use the PFS Option.

(d) Property Condition

(i) PFS Request for Damaged Property

The mortgagee must request NSC approval prior to approving the use of the PFS Option for a property that has sustained damage by fire, flood, earthquake, tornado, boiler explosion (for condominiums only) or mortgagee neglect (surchargeable damages as defined in 24 CFR § 203.378) as follows:

- the mortgagee must first obtain the Government’s Estimate of the Cost to Repair the surchargeable damage by contacting HUD’s Mortgagee Compliance Manager (MCM); and
- upon receipt of the Government’s Estimate of the Cost to Repair, the mortgagee must submit form HUD-90041, Request for Variance, via EVARS to obtain NSC approval prior to entering into a PFS Agreement with the Borrower.

(ii) Surchargeable Property Damage

The mortgagee is responsible for the cost of surchargeable property damage, in accordance with 24 CFR § 203.379.

(iii) Not Surchargeable Damage

If the damage is not surchargeable, the mortgagee is not required to obtain NSC approval prior to approving the PFS Agreement.

(iv) Hazard Insurance Claim

Where applicable, the mortgagee must work with the Borrower to file a hazard insurance claim and either:

- use the proceeds to repair the property; or
- adjust the PFS Claim by the amount of the insurance settlement (non-surchargeable damage) or the Government’s Repair Cost Estimate.
(v) Disclosure of Damage after PFS Approval

The Borrower must disclose to the mortgagee any damage to the property occurring during application or after receipt of the Approval to Participate in the PFS Program.

In the event a property sustains significant damage after a Borrower has received the Approval to Participate in the PFS Program, the mortgagee must re-evaluate the property to determine if it continues to qualify for the PFS Program or terminate participation if the extent of the damage changes the property’s FMV.

(vi) “As-Is” Subject to Surchargeable Damage

If the property is being sold “As Is” subject to the surchargeable damage, the mortgagee must deduct the Government’s Repair Cost Estimate of the damage from its PFS Claim.

(vii) “As Repaired” Subject to Surchargeable Damage

If the property is being sold “As Repaired” and funds for surchargeable repairs will be escrowed or provided as a credit to the Borrower at closing, the mortgagee must not include in its Net Sale Proceeds calculation the amount of the repair escrow or repair credit.

(e) Condition of Title

The mortgagee must ensure that all FHA-insured mortgaged properties sold under the PFS Program have Marketable Title.

Prior to execution of approving a Borrower for participation in the PFS program, the mortgagee must obtain a title search or preliminary report verifying that the title is not impaired by:

- unresolvable title problems; or
- junior liens that cannot be discharged as permitted by HUD.

(3) PFS Outreach Requirements

(a) Form HUD-90035

The mortgagee must mail form HUD-90035, Information Sheet: Pre-foreclosure Sale Procedure, to the Borrower who has expressed an interest or who has been identified by the mortgagee as a qualified candidate for the PFS Program. Prior to mailing form HUD-90035, the mortgagee must add its toll-free or collect telephone number to the form.
(b) Disclosure Requirements for PFS Transactions

Before approving the Borrower for the PFS Option, the mortgagee must notify the Borrower in writing of the following:

- The mortgage must be in default on the date the PFS transaction closes, pursuant to Section 204 of the National Housing Act, 12 U.S.C. 1710.
- PFS transactions are reported to consumer reporting agencies and will likely affect the Borrower’s ability to obtain another mortgage and other types of credit.
- If the Borrower is a servicemember, it is recommended that the Borrower obtain guidance from their employer regarding the PFS’s impact on their security clearance and employment.
- PFS transactions are reported to the Credit Alert Interactive Voice Response System (CAIVRS) which could result in their inability to obtain government financing or affect other government benefits for a certain period of time.

(4) Owner-Occupant Borrower Compensation

(a) Compensation Amount

HUD offers owner-occupant Borrowers who successfully sell their properties using the PFS Option a compensation of up to $3,000 so long as they:

- act in good faith; and
- are not required to make a cash reserve contribution.

(b) Use of Compensation

The owner-occupant Borrower may:

- apply the entire amount of the $3,000 compensation or a portion of it to resolve junior liens; and /or
- offset the sales transaction costs not paid by HUD (including a home warranty plan fee, costs of optional repairs, and the buyer’s closing expenses).

The owner-occupant Borrower who is not required to make a minimum cash reserve contribution may receive any remaining amount for transition or relocation assistance only. The relocation or transition assistance must be itemized on the settlement statement or similar legal document.

The mortgagee must instruct the closing agent to:

- pay the HUD relocation or transition assistance from Net Sale Proceeds; and
• itemize it and any assistance received from other entities separately on the settlement statements or similar legal document.

(5) Cash Reserve Contributions for Standard PFS Transactions

(a) Definition

Cash reserves include all non-retirement liquid assets available for withdrawal or liquidation from all financial institutions. Such accounts include, but are not limited to, the following:

• brokerage, mutual funds, checking, savings, money market or certificate of deposits, other depository accounts, and stocks;

• other equity instruments such as marketable debt of federal, state, or local governments, government sponsored enterprises, corporations and other businesses; and

• other securities and commodities (including futures, traded on an exchange or marketplace generally available to the public) for which values can be readily verified using Schedules B (Interest & Dividends), D (Capital Gains & Losses) and E (Supplemental Income & Loss) of the Borrower’s most recent federal tax return.

(b) Standard

Prior to approving a Borrower to participate in a Standard PFS transaction, the mortgagee must calculate and disclose to the Borrower the amount of the Borrower’s cash reserve contribution to be applied toward the Standard PFS transaction.

To determine the cash reserve contribution, the mortgagee must obtain the Borrower’s:

• three most recent monthly bank statement(s);

• three most recent months of brokerage statement(s); and

• most recent federal tax return at the time the Borrower requests an approval for a Standard PFS.

The mortgagee must calculate the total cash reserves using the highest ending balance of each cash reserve asset.

(c) Cash Reserves Greater than $5,000

The mortgagee must require the Borrower with cash reserves greater than $5,000 to contribute 20 percent of the total amount exceeding $5,000 up to the difference between the unpaid principal balance and the appraised value of the property towards the principal balance of the mortgage.
(d) Negative Cash Reserves

If the cash reserve calculation returns a negative result, the mortgagee is not required to demand a contribution from the Borrower, in connection with the PFS transaction.

(6) PFS Program Participation Requirements

The mortgagee must monitor the PFS transaction in its entirety to ensure the Borrower’s compliance with the PFS requirements and is required to terminate a Borrower’s participation in the PFS Program in the event of noncompliance.

(a) Approval to Participate

After determining that a Borrower and property meet the participation requirements herein, the mortgagee must notify the Borrower by sending:

- an approval to Participate in the PFS Program (form HUD-90045, Approval to Participate), including the date by which the Borrower’s Sales Contract must be executed; and
- a Pre-foreclosure Sale Addendum.

The Borrower must acknowledge their decision to participate in the PFS Program and to confirm their agreement to comply with PFS Program requirements by signing and returning form HUD-90045, Approval to Participate, to the mortgagee within seven Days of receiving the form.

(b) Sample Pre-Foreclosure Sale Addendum

<table>
<thead>
<tr>
<th>Mortgagee:</th>
<th>Mortgagee Loan Number:</th>
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<tbody>
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</table>

Address of Property:

---------------------------------------------

Date of Purchase Contract: 

_____ / ____ / ____

<table>
<thead>
<tr>
<th>Seller:</th>
<th>Buyer:</th>
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<table>
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<table>
<thead>
<tr>
<th>Seller’s Agent/Listing Agent:</th>
<th>Buyer’s Agent:</th>
</tr>
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<tbody>
<tr>
<td>----------------------------------------</td>
<td>--------------------------</td>
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</tbody>
</table>
This Pre-Foreclosure Sale Addendum ("Addendum") is given by the Seller(s), Buyer(s), Agent(s), and Facilitator/Negotiator to the Mortgagee of the mortgage loan secured by the Property ("Mortgage") in consideration for the mutual and respective benefits to be derived from the pre-foreclosure sale of the Property.

NOW, THEREFORE, the Seller(s), Buyer(s), Agent(s), and Facilitator/Negotiator do hereby represent, warrant and agree under the pains and penalties of perjury, to the best of each signatory's knowledge and belief, as follows:

(a) The sale of the Property is an "arm's length" transaction, between Seller(s) and Buyer(s) who are unrelated and unaffiliated by family, marriage, or commercial enterprise. Additionally, the transaction is characterized by a selling price and other conditions that would prevail in an open market environment and there are no hidden terms or special understandings that exist between any of the parties involved in the transaction including, but not limited to the buyer, seller, appraiser, broker, sales agent (including, but not limited to the listing agent and seller’s agent), closing agent and mortgagee;

(b) Any relationship or affiliation by family, marriage, or commercial enterprise to the Seller(s) or Buyer(s) by other parties involved in the sale of the Property has been disclosed to the Mortgagee;

(c) There are no agreements, understandings or contracts between the Seller(s) and Buyer(s) that the Seller(s) will remain in the Property as tenants or later obtain title or ownership of the Property, except that the Sellers(s) are permitted to remain as tenants in the Property for a short term, as is common and customary in the market but no longer than ninety (90) days, in order to facilitate relocation;

(d) Neither the Sellers(s) nor the Buyer(s) will receive any funds or commissions from the sale of the Property except that the Seller(s) may receive a payment if it is offered by the Mortgagee, and, if the payment is made at closing of the sale of the Property, reflected on the HUD-1 Settlement Statement;

(e) There are no agreements, understandings, current or pending higher offers, or contracts relating to the current sale or subsequent sale of the Property that have not been disclosed to the Mortgagee;
(f) The current sale transaction is a market real estate transaction, and the buyer is making an outright purchase of real property;

(g) The current sale transaction will be recorded;

(h) All amounts to be paid to any person or entity, including holders of other liens on the Property, in connection with the pre-foreclosure sale have been disclosed to and approved by the Mortgagor and will be reflected on the HUD-1 Settlement Statement;

(i) Each signatory understands, agrees and intends that the Mortgagor is relying upon the statements made in this Addendum as consideration for the reduction of the payoff amount of the Mortgage and agreement to the sale of the Property;

(j) A signatory who makes a negligent or intentional misrepresentation agrees to indemnify the Mortgagor for any and all loss resulting from the misrepresentation including, but not limited to, repayment of the amount of the reduced payoff of the Mortgage;

(k) This Addendum and all representations, warranties and statements made herein will survive the closing of the pre-foreclosure sale transaction;

(l) Except for the real estate agents and brokers identified in this Addendum, the signatories to this agreement can only serve in one capacity in order to be in compliance with HUD’s policies on conflicts of interest and arms-length transactions;

(m) The Listing Agent and Listing Broker certify that the subject property was initially listed in the Multiple Listing Service (MLS) for a period of 15 calendar days before any offers were evaluated;

(n) If multiple offers were under consideration at the time the offer was submitted for acceptance, the Listing Agent and Listing Broker certify that, of all of the offers meeting HUD’s guidelines, this offer yielded the highest net return; and

(o) Each signatory certifies that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate. HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001. 1010. 1012; 31 U.S.C. 3729. 3802)

IN WITNESS WHEREOF, I have subscribed my name this ___ day of __________, 20___.

(Seller’s Signature) By: ________________________________________________

(Seller’s Signature) By: ________________________________________________

Post Date: 09/11/2014
IN WITNESS WHEREOF, I have subscribed my name this ____ day of ____________, 20____.
(Listing Agent’s Signature) By: __________________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ____________, 20____.
(Listing Broker’s Signature) By: __________________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ____________, 20____.
(Buyer’s Signature) By: __________________________________________
(Buyer’s Signature) By: __________________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ____________, 20____.
(Buyer’s Agent’s Signature) By: __________________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ____________, 20____.
(Buyer’s Broker’s Signature) By: __________________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ____________, 20____.
(Transaction Facilitator’s Signature (if applicable)) By: __________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ____________, 20____.
(Escrow Closing Agent’s Signature) By: __________________________

(c) Use of Real Estate Broker

The services of a real estate broker/agent must be retained within seven Days of the date the Approval to Participate is granted.

(i) Broker Duties

The broker/agent must market the property within the pre-established timeframe and list the property for the established sales price.
(ii) Broker Conflicts of Interest

The broker/agent selected must have no conflict of interest with the Borrower, the mortgagee, the appraiser or the buyer associated with the PFS transaction.

Any conflict of interest, appearance of a conflict, or self-dealing by any of the parties to the transaction is strictly prohibited.

A broker/agent is never permitted to claim a sales commission on a PFS of their own property or that of an immediate Family Member.

(d) Required Listing Disclosure

The established Listing Agreement between the seller and the agent/broker must include the cancellation clause which reads as follows: “Seller may cancel this Agreement prior to the ending date of the listing period without advance notice to the Broker, and without payment of a commission or any other consideration if the property is conveyed to the mortgage insurer or the mortgage holder. The sale completion is subject to approval by the mortgagee.”

(e) Property Maintenance

The Borrower must maintain the property in “ready to show” condition and make basic property repairs until the PFS transaction closes.

HUD does not require the mortgagee to perform inspections during the PFS period if contact with the Borrower is maintained, unless there is reason to suspect that the property has become vacant.

(f) Arms-Length Transaction

(i) Definition

An arms-length PFS transaction is between two unrelated parties that is characterized by a selling price and other conditions that would prevail in an open market environment and without hidden terms or special understandings existing between any of the parties (e.g., buyer, seller, appraiser, sales agent, closing agent, and mortgagee).

(ii) Standard

The mortgagee must ensure that the following arms-length requirements apply to parties involved in PFS transactions:
Any PFS proposed by the Borrower or his agent and approved by the mortgagee must be an arm’s-length transaction between the Borrower and prospective buyer, subject to the exceptions in the Permitted Non-Arms-Length Transaction section.

Except for real estate agents and brokers representing a party to the PFS, no party that is a signatory on the sales contract, including addenda, can serve in more than one capacity.

The broker hired to sell the property must not share a business interest with the mortgagee (if a shared interest exists between appraiser and sales agent and is known to the mortgagee, the mortgagee must note this in the servicing file).

All doubts will be resolved in a manner to avoid a conflict of interest, the appearance of conflict, or self-dealing by any of the parties (e.g., a real estate agent shall never be permitted to claim a sales commission on the sale of his own property, or that of an immediate Family Member [spouse, sibling, parent, or child], under the PFS procedure).

### (iii) Permitted Non-Arms-Length Transactions

HUD permits non-arms-length PFS transactions, to the extent necessary to comply with state law, where state law prohibits placement of an arm’s-length transaction requirement on property sales.

If clauses (a) and (c) of the PFS Addendum are impermissible under state law, the mortgagee may strike these clauses from the PFS Addendum prior to execution.

### (g) Relocation Services

The mortgagee may permit a Relocation Service affiliated with the Borrower’s employer to contribute a fixed sum towards the proceeds of the PFS transaction without altering the arms-length nature of the sale, so long as the result is an outright sale of the property and cancellation of the FHA mortgage insurance.

### (7) Appraisal

#### (a) Appraisals

Borrowers must list properties for sale through the PFS Program at no less than the “As Is” value as determined by an appraisal completed in accordance with the requirements in Appraisals. To determine Property Value, the mortgagee must obtain a standard electronically-formatted appraisal pursuant to the following requirements:
• The appraisal must contain an “As-Is” FMV for the subject property.
• A copy of the appraisal must be provided to the homeowner, sales agent, or HUD, upon request.

(b) Appraisal Validity Period

The “As-Is” Appraisal used for a PFS transaction is valid for 120 Days. If a mortgagee determines that a second “As-Is” Appraisal is required, then the mortgagee may obtain a new “As-Is” Appraisal, even if the property was appraised by an FHA Roster Appraiser within the preceding 120 Days.

(c) Appraisal Variance Requests

A mortgagee must submit a Request for a Variance through EVARS to approve a PFS transaction if, according to the appraisal performed by an FHA Roster Appraiser, one of the following conditions exists:

• the current appraised value of the property is less than the Unpaid Principal Balance (UPB) by an amount of $75,000 or greater; or
• the appraised value is less than 50 percent of the UPB.

The mortgagee must obtain approval by submitting the Variance request to the NSC for HUD approval via EVARS prior to authorizing the marketing of the property.

If neither of these conditions exists, the mortgagee may accept an appraisal performed by an FHA Roster Appraiser if the “As-Is” value of the property is affirmed using a Broker’s Price Opinion (BPO) or Automated Valuation Model (AVM) that is within 10 percent of the value assessed by the appraiser.

Upon determining and documenting that the appraised value is within the relevant range, the mortgagee may authorize the marketing of the property.

(8) Pre-foreclosure Sale Marketing Period

The Borrower has four months from the date of the Borrower’s Approval to Participate to acquire a Contract of Sale.

On a monthly basis, mortgagees must review the property’s marketing status with the Borrower and/or real estate broker/agent.

(a) Extension to PFS Marketing Period

HUD provides automatic two-month extensions to the deadline to initiate foreclosure for completion of a PFS transaction as follows:
the mortgagee has an “A” TRS II score under the Department’s TRS II; or

- there is a signed Contract of Sale, but settlement has not occurred by the end of the fourth month following the date of the Borrower’s Approval to Participate in the PFS Program.

(b) Previously Initiated Foreclosures

The mortgagee must not cancel a foreclosure to initiate a PFS marketing period for a property of a Borrower meeting the PFS eligibility requirements. The mortgagee may only cancel a foreclosure action if the mortgagee has received an acceptable Contract of Sale that meets the PFS requirements.

(c) Minimum Marketing PFS Period

The mortgagee must ensure that PFS property is listed in the Multiple Listing Service for a period of 15 Days before offers are evaluated. Following this initial listing period, the mortgagee may evaluate offers as they are received.

(9) Evaluation of Offers

(a) Standard

The listing agent or listing broker must forward to the mortgagee or its designee the offer that:

- yields the highest net return to HUD; and
- meets HUD’s guidelines regarding bid requirements.

The listing agent or listing broker must ensure that:

- all offers submitted to the mortgagee for approval are signed by both the seller and the buyer prior to submission; and
- the PFS Addendum is signed by all of the applicable parties (except for the closing agent).

(b) Back-up Offers

Once an offer has been submitted to the mortgagee for approval, the listing agent or listing broker must retain any offer that the seller elects to hold for “back-up” until a determination has been made on the previously submitted offer.

(c) Required Documentation

In accordance with state law, the listing agent and/or listing broker must retain all offers received, including offers not submitted for approval.
(10) Contract Approval by Mortgagee

(a) Anti-Fraud Requirements for PFS Transactions

The following anti-fraud measures apply to PFS transactions:

- A mortgagee must not approve a Borrower for a PFS if the mortgagee knows or has reason to know of a Borrower’s fraud or misrepresentation of information.
- All parties involved in a PFS transaction must sign and date a PFS Addendum as a contingency for a PFS transaction to close.

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ________, 20____.

(Seller’s Signature) By: _____________________________________________

(Seller’s Signature) By: _____________________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ________, 20____.

(Listing Agent’s Signature) By: ______________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ________, 20____.

(Listing Broker’s Signature) By: ______________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ________, 20____.

(Buyer’s Signature) By: _____________________________________________

(Buyer’s Signature) By: _____________________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ________, 20____.

(Buyer’s Agent’s Signature) By: ______________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ________, 20____.

(Buyer’s Broker’s Signature) By: ______________________________________

IN WITNESS WHEREOF, I have subscribed my name this ____ day of ________, 20____.

(Transaction Facilitator’s Signature (if applicable)) By: __________________________
IN WITNESS WHEREOF, I have subscribed my name this ____ day of 
____________, 20____.
(Escrow Closing Agent’s Signature) By:

(b) Third-Party Fees

With the exception of real estate commissions, third-party fees incurred by the 
mortgagee or Borrower to negotiate a PFS must not be included on the 
settlement statement or similar legal document unless explicitly permitted by 
state law.

The mortgagee, its agents, or any outsourcing firm it employs must not charge 
any fee to the Borrower for participation in the PFS Program.

(c) Sales Contract Review Period

The mortgagee must send to the Borrower form HUD-90051, Sales Contract 
Review, no later than five business days from receipt of an executed Contract 
for Sale.

(d) Mortgagee Review of Contract for Sale

Prior to approval of the contract, the mortgagee must:

- ensure that the PFS sale is an outright sale of the property and not a 
sale by assumption;
- review the sales documentation to determine that there are:
  - no hidden terms or special agreements existing between any of the 
    parties involved in the PFS transaction; and
  - no contingencies that might delay or jeopardize a timely 
    settlement; and
- determine if the property was marketed at the gross offering price 
  (close to FMV) and the minimum required Tiered Net Sale Proceeds 
  have been met.

The mortgagee is liable for any FHA Insurance Claim Overpayment on a PFS 
transaction that closes with less than the required Tiered Net Sale Proceeds.
II. Title II Insured Housing Programs Forward Mortgages

B. Servicing

3. Default Servicing

(e) Net Sale Proceeds

(i) Definition

Net Sale Proceeds are the proceeds of a PFS sale, calculated by subtracting reasonable and customary closing/settlement costs from the property sales price.

(ii) Standard

Regardless of the property’s sale price, a mortgagee may not approve a PFS Contract for Sale if the Tiered Net Sale Proceeds fall below HUD’s minimum allowable thresholds. HUD’s guidelines for minimum Tiered Net Sale Proceeds, as based on the length of time a property has been competitively marketed for sale, are as follows:

- First 30 Days of marketing: The mortgagee may only approve offers that will result in minimum Net Sale Proceeds of 88 percent of the “as-is” appraised FMV.
- Next 30 Days of marketing: The mortgagee may only approve offers that will result in minimum Net Sale Proceeds of 86 percent of the “as-is” appraised FMV.
- For the remaining duration of the PFS marketing period: The mortgagee may only approve offers that will result in minimum Net Sale Proceeds of 84 percent of the “as-is” appraised FMV.

The mortgagee has the discretion to deny or delay sales where an offer may meet or exceed the 84 percent, if it is presumed that continued marketing would likely produce a higher sale amount.

(f) Allowable Settlement Costs

The mortgagee may include the following settlement costs in its Net Sale Proceeds calculation:

- sales commission consistent with the prevailing rate but, not to exceed 6 percent;
- real estate taxes prorated to the date of closing;
- local/state transfer tax stamps and other closing costs customarily paid by the seller including the seller’s costs for a Title Search and Owner’s Title Insurance;
- compensation payable to the owner-occupant Borrower of $3,000, if not required to pay a cash contribution;
- upon extinguishing the owner-occupant Borrower’s compensation of $3,000, HUD will allow an additional $1,500 of Net Sale Proceeds to be used to resolve junior liens, for a total of $4,500;
III. Title II Insured Housing Programs Forward Mortgages

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- Non-owner-occupant Borrower – HUD will allow $1,500 of Net Sale Proceeds to be used to resolve junior liens;
- the entire outstanding Partial Claim amount must be paid when calculating the Net Sale Proceeds. The seller, buyer, or other interested party may contribute the difference if the Net Sale Proceeds’ amount falls below the allowable threshold; and
- up to 1 percent of the buyer’s first mortgage amount if the sale includes FHA financing.

(g) Unacceptable Settlement Costs

The mortgagee must not include the following costs in the Net Sale Proceeds calculation:
- repair reimbursements or allowances;
- home warranty fees;
- discount points or mortgage fees for non FHA-financing; and
- mortgagee’s Title Insurance fee.

(h) Partial Claim

The mortgagee must include Partial Claim amounts in the total indebtedness when calculations are made. The mortgagee must deduct any outstanding balance on a Partial Claim Note from the Net Sale Proceeds based on the tiered structure of 88 percent, 86 percent or the minimum of 84 percent of the “as-is” appraised FMV.

(i) Discharge of Junior Liens

The mortgagee must provide for the discharge of junior liens as follows:
- If the Borrower has the financial ability, the Borrower must be required to satisfy or obtain release of liens.
- If the owner-occupant Borrower receives compensation ($3,000), then this compensation may be applied toward discharging liens.
- If no other sources are available, both the owner-occupant Borrower and the non-occupant Borrower may obligate up to an additional $1,500 from sale proceeds towards discharging liens or encumbrances.

(j) Title I Liens

If the mortgagee discovers that a Borrower has a HUD Title I mortgage secured by the property, the mortgagee must contact the Title I subordinate lien holder to advise of the Borrower’s participation in a PFS. HUD may require the mortgagee to negotiate the release of the lien in order to proceed with a PFS.
If the Title I mortgage has been assigned to HUD, the mortgagee must contact HUD’s Financial Operations Center for guidance:

U.S. Department of Housing and Urban Development
Financial Operations Center
52 Corporate Circle
Albany, New York 12203.
1-800-669-5152/ fax (518) 862-2806

(k) Section 235 Recapture

The mortgagee must first determine if the mortgage is subject to recapture as referenced in Section 235 Mortgages. If a recapture amount is owed to HUD, the mortgagee must contact HUD’s Servicing Contractor prior to approving the PFS.

(11) Closing and Post-Closing-Responsibilities

Prior to closing, the mortgagee must provide the closing agent with:
- form HUD-90052, Closing Worksheet, which lists all amounts payable from Net Sale Proceeds; and
- the PFS Addendum that was signed by all parties, except for the closing agent.

The closing agent must calculate the actual Net Sale Proceeds and provide a copy of the settlement statement or similar legal document to the mortgagee.

(a) Mortgagee Review of Final Terms of PFS Transaction

The mortgagee must ensure that:
- the final terms of the PFS transaction are consistent with the purchase contract;
- only allowable settlement costs have been deducted from the seller’s proceeds;
- the Net Sale Proceeds will be equal to or greater than the allowable thresholds; and
- form HUD-90052 is included in the Claim Review file.

(b) Closing Agent Responsibilities after Final Approval

Once the mortgagee gives final approval for the PFS and the settlement occurs, the closing agent must:
- pay the expenses out of the Net Sale Proceeds and forward the Net Sale Proceeds to the mortgagee;
no later than three business days after the PFS transaction closes, forward a copy of the settlement statement or similar legal document to the mortgagee to be included in the Claim Review File; report the PFS Sale to consumer reporting agencies; and sign the PFS Addendum on or before the date the PFS transaction closes, unless explicitly prohibited by state statute.

(c) Reporting to Consumer Reporting Agencies and the IRS

The mortgagee is responsible for:
- complying with applicable law and federal regulations relating to reporting to consumer reporting agencies; and
- ensuring that all reported information is accurate.

The mortgagee is also responsible for any required IRS reporting regarding acquisition of secured property or cancellation of mortgage debt, in accordance with the Internal Revenue Code (IRC).

(12) Early Termination of PFS Program Participation

A Borrower may voluntarily terminate participation in the PFS Program at any time. PFS Program participation may also be terminated at the discretion of the mortgagee, for any of the following reasons:
- discovery of unresolvable title problems;
- determination that the Borrower is not acting in good faith to market the property;
- significant change in property condition or value; or
- re-evaluation based on new financial information provided by the Borrower that indicates that the case does not qualify for the PFS Option.

The mortgagee must forward the Borrower a date-stamped written explanation for terminating their program participation. This letter is to include the “end-of-participation” date for the Borrower.

(13) Failure to Complete a PFS Transaction

At the expiration of the PFS marketing period, should the Borrower be unable to complete a PFS transaction, the mortgagee must re-evaluate available Loss Mitigation Options as follows:
- determine eligibility for one of the Home Retention Loss Mitigation Options, if the Borrower’s financial condition has improved to the point that reinstatement is a viable option; and
- try to obtain a DIL of Foreclosure before commencing foreclosure, if reinstatement is not feasible.
Within 90 Days of the expiration of the PFS marketing period, the mortgagee must consider and approve the Borrower for an alternate Loss Mitigation Option or complete the first legal action to initiate foreclosure.

Should additional time be needed to complete a DIL or to initiate foreclosure, mortgagees must submit a request for an extension of time to the NSC via EVARS.

(14) Extensions of Foreclosure Timeframe

(a) Standard

HUD provides an automatic 90-Day extension to the deadline to initiate another Loss Mitigation Option and/or to commence/recommence foreclosure after PFS early termination or option failure to initiate another Loss Mitigation Option or to undertake the first legal action to institute foreclosure.

The automatic 90-Day extension begins the day after the PFS Approval to Participate expires.

If the mortgagee has not yet received the Net Sale Proceeds from the closing agent and the automatic 90-Day extension is nearing expiration, the mortgagee must submit a request for extension to the NSC via EVARS.

(b) Required Documentation

The mortgagee must note the use of any extensions, whether automatic or requested, on the claim form.

(15) Deficiency Judgments

If a foreclosure occurs after the Borrower unsuccessfully participated in the PFS process in good faith, neither the mortgagee nor HUD will pursue the Borrower for a deficiency judgment.

(16) PFS Compensation

HUD offers mortgagees a $1,000 incentive as compensation for each completed PFS transaction that complies with all HUD PFS requirements.

(17) Satisfaction of Mortgage Obligation

Upon receipt of the portion of the Net Sale Proceeds designated for mortgage satisfaction, the mortgagee must satisfy the mortgage obligation.
(18) **PFS Claim Filing**

The mortgagee must file a PFS Claim for FHA mortgage insurance benefits within 30 Days after the settlement date of the PFS transaction.

(19) **Mortgage Insurance Termination**

The mortgagee must not submit a Mortgage Insurance Termination on PFS transactions. HUD can only pay FHA mortgage insurance benefits when the mortgage insurance is in an “active” status.

(B) **Deed-in-Lieu of Foreclosure**

(1) **Definition**

A DIL of Foreclosure is a Loss Mitigation Home Disposition Option in which a Borrower voluntarily offers the deed as collateral property to HUD in exchange for a release from all obligations under the mortgage. There are three types of DIL transactions:

- Streamlined DIL transactions;
- Streamlined DIL transactions for servicemembers with PCS Orders; and
- Standard DIL transactions.

(2) **Eligibility**

(a) **Mortgage Status**

The mortgagee must ensure that the mortgage meets the following eligibility requirements for the DIL Option:

- The mortgage is in default and the cause of default must be incurable;
- The Borrower is at risk of imminent default.
- The Borrower must provide documentation to the mortgagee, which supports their imminent default.

The DIL Option is not available to Borrowers who abandon the mortgage obligation despite having the ability to pay.

(b) **Borrower Eligibility**

HUD expects Borrowers to first attempt to market the property under the PFS Program prior to use of the DIL Option.
(i) Streamlined DIL

Definition

A Streamlined DIL is a DIL transaction that does not require verification of hardship or the obtaining of a complete loss mitigation request.

Standard

The mortgagee must ensure that a non-owner-occupant Borrower meets the following requirements:

- The Borrower is 90 Days or more delinquent on their FHA-insured mortgage as of the date of the mortgagee’s review.
- Each Borrower has a credit score of 620 or below.

The mortgagee must ensure that an owner-occupant Borrower meets the following requirements:

- The Borrower is 90 Days or more delinquent on their FHA-insured mortgage as of the date of the mortgagee’s review.
- Each Borrower has a credit score of 620 or below.
- Except for servicemembers with PCS orders who meet the requirements for a Streamlined DIL for servicemembers, the owner-occupant Borrower must have been reviewed and defaulted or deemed ineligible for Loss Mitigation Home Retention Options as follows:
  - the Borrower has defaulted on a Trial Payment Plan within the last six months;
  - the Borrower has defaulted on an FHA-HAMP or Loan Modification within the last two years;
  - the Borrower has been deemed ineligible for a permanent Loss Mitigation Home Retention Option or SFB-Unemployment;
  - the Borrower received an SFB-Unemployment but did not otherwise qualify for a permanent Loss Mitigation Home Retention Option by the end of the Special Forbearance period;
  - the Borrower has been deemed eligible for and offered a Loss Mitigation Home Retention Option. However, the Borrower has a credit score below 580 and provides written documentation that they choose not to accept the Loss Mitigation Home Retention Option offered by the mortgagee.

Eligible Properties

The mortgagee may offer the Streamlined DIL process for Principal Residences, second homes, and investment properties, provided that all
Borrowers meet all program requirements. Such properties may be vacant, but cannot be condemned.

(ii) Streamlined DIL for Servicemembers with PCS Orders

Definition

A Streamlined DIL for servicemembers with PCS Orders Option is a Streamlined DIL that may be offered to servicemembers who must relocate to a new duty station at least 50 miles away from their existing residence, without the mortgagee verifying hardship or obtaining a complete Loss Mitigation Workout Packet.

Standard

The mortgagee must ensure that servicemembers meet the following requirements for a Streamlined DIL for servicemembers with PCS Orders:

- The servicemember has PCS Orders to relocate to a duty station at least 50 miles away from their existing residence and provides the mortgagee with a copy of such orders.
- The servicemember submits an affidavit certifying that:
  - the property securing the FHA-insured mortgage is or was their Principal Residence when the PCS orders were issued; and
  - new permanent housing has been or will be obtained as a result of the orders.

Eligible Properties

The mortgagee may offer the Streamlined DIL process for Principal Residences, second homes, and investment properties, provided that all Borrowers meet all program requirements. Such properties may be vacant, but cannot be condemned.

(iii) Standard DIL

Definition

A Standard DIL is a DIL available for owner-occupant Borrowers who experienced a verifiable hardship which has affected their ability to sustain their mortgage but who do not meet the requirements of a Streamlined DIL Option.

Standard

Borrowers applying for the Standard DIL Option must provide verification of hardship and must submit a complete loss mitigation request for review.
The mortgagee must evaluate the Borrower’s financial condition as follows:

- The financial analysis requirement may be waived for Borrowers who previously participated in the PFS Program.
- The mortgagee must project the Borrower’s surplus monthly net income for a minimum of three months and determine if the Borrower has the capacity to support the mortgage debt, possibly with the use of Loss Mitigation Home Retention Options.
- The mortgagee must ensure that the DIL Option is not offered to Borrowers who abandon the mortgage obligation despite having the ability to pay.

(iv) DIL Exceptions for Borrowers with More than One FHA-Insured Mortgage

The mortgagee must submit a request for NSC approval via EVARS for approval to offer a DIL Option to a Borrower who owns more than one FHA-insured property.

(v) Exceptions for Non-Owner Occupants in Streamlined DIL Transactions

HUD authorizes mortgagees to offer Streamlined DIL to non-occupant Borrowers when the following can be demonstrated:

- Need to vacate: the non-occupancy was related to the cause of default; or
- Not purchased/used as rental: the subject property was not purchased as a rental or used as a rental for more than 18 months prior to the offering of the DIL Option.

The mortgagee must obtain NSC approval via EVARS prior to offering the DIL Option to a corporate Borrower.

(c) Condition of Title

The Borrower or mortgagee must convey clear and marketable title to the Secretary. The mortgagee must obtain a title search or preliminary report verifying that the title is not impaired by:

- unresolvable title problems; or
- junior liens that cannot be discharged as permitted by HUD.

(i) Discharge of Junior Liens

The mortgagee must provide for the discharge of junior liens as follows:
• The mortgagee must complete a title search and may be required to secure release of junior liens and/or endorsements to the title policy. HUD will not accept title subject to most junior liens, including IRS liens. HUD will allow liens securing repayment of Section 235 assistance payments, Partial Claim advances, and Title I liens.

• If the Borrower has the financial ability, the Borrower must be required to satisfy or obtain release of lien.

See Condition of Title regarding Title I Liens, Section 235 Recaptures, and Partial Claims.

(ii) Use of Borrower Consideration

With the Borrower’s consent, the mortgagee may apply the consideration payable to the Borrower toward discharge of liens, if this results in a clear title.

(d) Deficiency Judgment

HUD will not accept a DIL when it has elected to pursue a deficiency judgment against the Borrower.

(3) DIL Disclosure Requirements

Before being approved for a DIL, the mortgagee must notify the Borrower in writing of the following:

• The mortgage must be in default on the date the DIL special warranty deed is executed, pursuant to Section 204 of the National Housing Act (12 U.S.C. 1710).

• DIL transactions are generally reported to consumer reporting agencies, and will likely affect the Borrower’s ability to obtain another mortgage and other types of credit.

• If the Borrower is a servicemember, it is recommended that the Borrower obtain guidance from their employer regarding the DIL’s impact on their security clearance and employment.

• DIL transactions are generally reported to CAIVRS, which may result in the Borrower’s inability to obtain government financing or affect other government benefits for a certain period of time.

(4) DIL Borrower Consideration

HUD offers the Borrower a consideration of up to $2,000 upon vacating the property and satisfaction of the requirements of the DIL Agreement. HUD will not pay this consideration if the property is occupied at conveyance.
This consideration may be used to pay off junior liens in order to clear a title.

(5) DIL Documentation

(a) DIL Agreement

The Borrower and the mortgagee must execute a DIL Agreement in writing. HUD does not require a specific format for documenting a DIL Agreement. The mortgagee must ensure that the DIL documentation is in compliance with all applicable laws and regulations.

(b) DIL Agreement Terms

The mortgagee must ensure that the DIL Agreement contains the following:

- certification that the Borrower does not own other property subject to a mortgage insured by or held by HUD;
- the transfer date;
- notification of possible income tax consequences;
- acknowledgement that Borrowers who comply with all requirements of the Agreement will not be pursued for deficiency judgments;
- a statement describing the physical condition in which the property will be conveyed;
- agreement with the Borrower to convey the property vacant and free of Personal Property, unless HUD has approved an occupied conveyance;
- itemization of keys, built-in-fixtures, and equipment to be delivered by the mortgagee on or before the transfer date;
- evidence that utilities, assessments, and Homeowners’ Association (HOA) dues are paid in full to the transfer date, unless otherwise agreed to by all parties; and
- the amount of consideration payable to and/or on behalf of the Borrower will not exceed $2,000.

(6) DIL Conveyance

(a) Mortgage in Default

The mortgagee must ensure that the mortgage is in default when the DIL is recorded and the property conveyed to HUD.

(b) Special Warranty Deed

The Borrower and the mortgagee must convey the property through a special warranty deed and, when possible, the Borrower must convey title directly to
HUD. The mortgagee must cancel and surrender to the Borrower the original credit instrument, indicating that the mortgage has been satisfied.

If it is necessary to convey title to the mortgagee then to HUD, the mortgagee must document the reason in the Claim Review File.

(c) Conveyance Timeframe

The mortgagee must record the special warranty deed and deliver the original, recorded deed to HUD’s MCM within 45 Days of the date the clear and marketable title was conveyed to the Secretary.

(d) Tenant Occupied Properties

HUD will not accept a DIL if the collateral property is occupied at the time of conveyance to the Department, unless authorized for occupied conveyance. Mortgagees must follow the process established in 24 CFR § 203.675 to request authorization for an occupied conveyance.

(e) Option Not to Convey

The mortgagee may elect not to convey title to HUD and to terminate the contract of mortgage insurance. If this occurs, the mortgagee must notify HUD by using form HUD-27050-A in FHAC.

(7) DIL Compensation

HUD offers mortgagees a $250 incentive as compensation for each completed DIL transaction that complies with all HUD DIL requirements.

(8) Extensions for Foreclosure Timeframes

The mortgagee must complete the DIL or initiate foreclosure within six months of the date of default as follows, unless the mortgagee qualified for an automatic 90-Day extension by first attempting a Loss Mitigation Option or has received an extension approved by the NSC via EVARS:

- If the DIL follows a failed SFB-Unemployment Agreement or PFS, the DIL must be completed or foreclosure initiated within 90 Days of the failure.
- If the DIL follows any other Loss Mitigation Option, it must be completed or foreclosure initiated within six months of the date of default.
(9) Reporting to Consumer Reporting Agencies and the IRS

The mortgagee must:

- comply with applicable law and federal regulations relating to reporting to consumer reporting agencies; and
- ensure that all reported information is accurate.

The mortgagee must not report DIL transactions to consumer reporting agencies as foreclosures.

The mortgagee is also responsible for any required IRS reporting regarding any discharge of indebtedness, in accordance with the IRC.

(10) DIL Claim Filing

The mortgagee must follow the claim instructions detailed in HUD Claims Handbook 4330.4.

viii. Escalated Cases

Escalated Cases are written Borrower inquiries and complaints requiring additional mortgagee review because they include allegations of:

- improper analysis of Borrower information or denials of Loss Mitigation Options;
- foreclosures initiated or continued in violation of HUD’s policy; or
- other violation of HUD Collections and Loss Mitigation policies.

(A) Requests for Escalation

The mortgagee must escalate cases to its designated escalation team at the written request of:

- HUD staff; or
- the Borrower or Borrower’s Authorized Third Party representative.

(B) Escalation Process

The mortgagee must escalate and respond to cases in accordance with their written internal processes.

ix. Loss Mitigation Compensation

HUD compensates mortgagees for the successful completion of the approved Loss Mitigation Actions listed below.
II. Title II Insured Housing Programs Forward Mortgages

B. Servicing

3. Default Servicing

<table>
<thead>
<tr>
<th>Loss Mitigation Action</th>
<th>Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFB-Unemployment</td>
<td>$100 ($200 for mortgagees with an “A” TRS II Score)</td>
</tr>
<tr>
<td>Loan Modification</td>
<td>$750, plus up to $250 for reimbursement of title search and/or recording fees</td>
</tr>
<tr>
<td>FHA-HAMP</td>
<td>$500 for a Partial Claim and $750 for a Loan Modification, plus up to $250 for reimbursement of title search and/or recording fees</td>
</tr>
<tr>
<td>PFS</td>
<td>$1,000</td>
</tr>
<tr>
<td>Deed-in-Lieu (DIL)</td>
<td>$250</td>
</tr>
</tbody>
</table>

j. Non-Monetary Default

By executing the deed of trust and Note for an FHA-insured mortgage, the Borrower agrees to submit the monthly Mortgage Payment by the first of each month and to adhere to the uniform covenants listed in the deed of trust and Note. The following provides guidance associated with the Borrower’s failure to adhere to these covenants.

i. Definition

Non-monetary default is a default where the Borrower fails to perform obligations, other than making monthly payments, contained in the mortgage security instrument for a period of 30 Days.

ii. Mortgagee Cure

When the non-monetary default may be cured or otherwise resolved by mortgagee action without resorting to foreclosure action, the mortgagee must advance and charge to the Borrower all amounts due for servicing activities, as defined in the mortgage agreement, if:

- the Borrower fails to make required payments or charges;
- the Borrower fails to perform any other covenants and agreements contained in the security instrument; or
- there is a legal proceeding that may affect the mortgagee’s rights in the property.

iii. Hazard Insurance

When the Borrower fails to maintain hazard insurance coverage when stated as an obligation in the mortgage, the mortgagee may advance funds or force-place insurance as follows.
(A) Mortgagee Advances

The mortgagee may advance the funds to pay the renewal premiums. The mortgagee must renew the same type of policy and the same coverage carried previously by the Borrower.

(B) Force-Placed Insurance

The mortgagee may force-place insurance where consistent with federal regulations, including RESPA regulations on force-place insurance, if Borrowers fail to renew hazard insurance coverage when required. The mortgagee may not obtain more coverage than is necessary to protect the mortgagee’s interest.

iv. Taxes, Assessments and Government or Municipal Charges

The mortgagee may advance funds and charge the Borrower when the Borrower fails to pay taxes, assessments, water rates, and other governmental or municipal charges, fines, or impositions not included in the Borrower’s monthly Mortgage Payment.

v. Homeowners’ Association Fees

The Borrower must pay any condominium/HOA fees. The mortgagee must take any action necessary to protect the first-lien position of the FHA-insured mortgage against foreclosure actions brought by a condominium/HOA or any other junior lien holder.

vi. Code Violations

If the Borrower fails to address a code violation notice from the municipality where the property is located, the mortgagee must perform activities necessary to preserve and protect the property, as authorized under the security instruments.

See Mortgagee Property Preservation and Protection.

vii. Demolition Orders

The mortgagee must forward copies of all notices pertaining to demolition orders and hearings to HUD’s MCM immediately upon discovery.

Within 10 Days of receiving the notice, the MCM will advise the mortgagee as to whether to proceed with the demolition or to postpone the demolition until after conveyance to HUD.
viii. Due-on-Sale Clause

The mortgagee must review the mortgage’s legal documents to determine any covenant restrictions pertaining to assumption. See Change of Borrowers (Assumptions) for more information.

k. Distressed Asset Stabilization Program

THIS SECTION PENDING – UNDER CONSTRUCTION

l. Claims without Conveyance of Title

THIS SECTION PENDING – UNDER CONSTRUCTION

m. Foreclosure

When a defaulting Borrower cannot or will not resume and complete their Mortgage Payments, the mortgagee must take steps to acquire the property or see that it is acquired by a third party. Before starting foreclosure, the mortgagee must review its servicing record to be certain that servicing has been prudent and adequate. When foreclosure is appropriate, mortgagees must process foreclosure in a timely manner.

i. Initiation of Foreclosure

The mortgagee must exercise reasonable diligence in collecting past due mortgage amounts by:

• utilizing Early Delinquency Servicing Workout tools;
• determining eligibility of HUD’s Loss Mitigation Program when appropriate;
• when necessary, performing the first legal action to initiate foreclosure, to acquire title and possession of the property;
• ensuring that the mortgage has been accurately reported to consumer reporting agencies in accordance with applicable federal law; and
• ensuring that any former Borrower, co-Borrower and/or co-signer personally liable for payment of the mortgage debt has been notified, as appropriate.

(A) Reinstatement

Pursuant to 24 CFR § 203.608, the mortgagee must allow reinstatement of the mortgage if the Borrower offers in a lump sum payment all amounts to bring the account current, including costs incurred by the mortgagee in instituting foreclosure, except under any of the following circumstances:

• within the two years immediately preceding the initiation of the current foreclosure action, the mortgagee has accepted reinstatement in a previous foreclosure action;
• reinstatement will preclude foreclosure following a subsequent default; or
• reinstatement will adversely affect the priority of the mortgage lien.

(1) Property Inspections/Preservation

When a mortgage in default is reinstated, the mortgagee may charge the Borrower the costs of property inspections and/or preservation, so long as the costs are:
• reasonable and customary for those services, as established in the Mortgagee Property Preservation and Protection Action section; and
• consistent with HUD’s requirements, state law, and security instruments.

(2) Inspection Cost Collected from Borrower

The mortgagee may collect the cost of the inspections from the Borrower only when:
• the mortgage was reinstated or paid in full;
• the mortgagee has performed and properly documented the inspections pursuant to HUD’s requirements; and
• the cost of each inspection was reasonable and within the cost limitation established by HUD.

The mortgagee must not collect inspection costs from the Borrower's escrow account or charge for an Occupancy Inspection performed after successful contact with the Borrower or occupant.

(3) Attorney’s and Trustees’ Fees

In the event a foreclosure action is stopped for a Loss Mitigation Option, a reinstatement, or a payment in full, the mortgagee may charge the Borrower for attorney’s fees as follows:
• The attorney’s fees to be paid by the Borrower must be commensurate with the work actually performed to that point.
• The amount charged may not be in excess of the fee that HUD has established as reasonable and customary for claim purposes.

(4) Reporting Reinstatements

When a delinquent mortgage is reinstated, the mortgagee must report the appropriate code in SFDMS to indicate whether:
• use of repayment plans or HUD’s Loss Mitigation Options assisted in the reinstatement;
• reinstatement was due to a sale of the property using a mortgage assumption; or
• the Borrower was able to reinstate the mortgage on their own.
(B) Sale of the Property

HUD encourages the mortgagee, when possible, to provide the Borrower with an opportunity to sell the property and to provide a reasonable time to complete the sale. The mortgagee should not initiate foreclosure if it appears that a sale is probable and should accept payments tendered while the property is for sale and before foreclosure is started.

(C) Time Requirement to Utilize Loss Mitigation Option or Initiate Foreclosure Action

The mortgagee must utilize a Loss Mitigation Option or initiate foreclosure within six months of the date of default, pursuant to 24 CFR § 203.355. FHA considers the mortgagee to have satisfied this requirement if, within the six-month timeframe, the mortgagee takes one or a combination of the following actions:

- enter into an SFB-Unemployment Agreement per 24 CFR § 203.614m;
- complete a refinance of an insured cooperative housing mortgage per 24 CFR § 203.614c;
- complete an assumption per 24 CFR § 203.512;
- complete a Loan Modification per 24 CFR § 203.616;
- complete an assumption per 24 CFR § 203.512;
- execute a FHA-HAMP Option per 24 CFR § 203.371;
- execute a PFS agreement per 24 CFR § 203.37;
- execute a DIL of foreclosure per 24 CFR § 203.375; or
- initiate the first legal action to begin foreclosure.

(D) Assignments for Special Mortgages

The mortgagee must not foreclose on mortgages insured pursuant to Sections 203(q), 247, and 248 of the National Housing Act. The mortgagee must comply with HUD’s collection communication requirements and may then assign the mortgage to HUD as follows:

- Section 203(q) mortgages: may assign the mortgage to HUD in accordance with the provisions of 24 CFR § 203.350(d).
- Section 248 mortgages: may assign the mortgage to HUD in accordance with 24 CFR § 203.350(b), after the mortgage has been in default for 90 Days.
- Section 247 mortgages: may assign the mortgage to HUD in accordance with 24 CFR § 203.350(c), after the mortgage has been in default for 180 Days.

(E) When to Initiate Foreclosure

After at least three consecutive full monthly payments are due but unpaid, a mortgagee may initiate a foreclosure for monetary default if one of the following conditions is met:

- The mortgagee has completed its review of the Borrower’s loss mitigation request, determined that the Borrower does not qualify for a Loss Mitigation
Option, properly notified the Borrower of this decision, and rejected any available appeal by the Borrower.

- The Borrower has failed to perform under an agreement on a Loss Mitigation Option, and the mortgagee has determined that the Borrower is ineligible for other Loss Mitigation Options.
- The mortgagee has been unable to make a determination of the Borrower’s eligibility for any Loss Mitigation Option due to the Borrower not responding to the mortgagee’s efforts to contact the Borrower.

(F) Exceptions to Foreclosure Initiation Timeframe

A mortgagee may initiate foreclosure on a delinquent mortgage, regardless of whether three full consecutive monthly payments under the mortgage are due but unpaid, if one of the following conditions is met:

- The mortgagee has determined that the mortgaged property has been abandoned, or has been vacant for more than 60 Days.
- The Borrower, after being clearly advised of the Options available for relief, including the PFS and DIL Options, has clearly stated to the mortgagee, in writing, that they have no intention of fulfilling their obligation under the mortgage.
- The mortgaged property is not the Borrower’s Principal Residence and it is occupied by tenants who are paying rent, but the Rental Income is not being applied to the mortgage debt.
- The property is owned by a corporation or partnership.

(1) Vacant or Abandoned Properties

If the mortgage is in default, the mortgagee must commence foreclosure:

- no later than six months after the date of default; or
- no later than 120 Days after the latter of the date that:
  - the property becomes vacant; or
  - the property is discovered or should have been discovered vacant or abandoned.

(2) Prohibition of Foreclosure due to State Legislation

In some states, the mortgagee must delay, cancel, and/or reschedule a foreclosure action to comply with state law requirements. Pursuant to 24 CFR § 203.355, HUD provides a 90-Day extension to commence foreclosure where:

- the foreclosure sale would have been conducted in the required timeframe but was cancelled to comply with state law; and
- the initial legal action to commence foreclosure was timely.
(3) Prohibition of Foreclosure due to Bankruptcy

If federal bankruptcy does not permit commencement of foreclosure within the standard six-month timeframe or requires foreclosure to be discontinued, the mortgagee must commence or, if applicable, recommence foreclosure within 90 Days after the applicable release of stay or bankruptcy discharge date.

(4) Prohibition of Foreclosure due to Disaster

Mortgages secured by properties in Presidentially-Declared Major Disaster Areas (PDMDA) are subject to a 90-Day moratorium on foreclosures following the disaster. See Presidential-Declared Major Disaster Areas.

HUD provides the mortgagee an automatic 90-Day extension from the date of the moratorium expiration date to commence or recommence foreclosure action or evaluate the Borrower under HUD’s Loss Mitigation Program.

(5) Required Documentation

The mortgagee must clearly document the reasons for not proceeding with HUD’s loss mitigation activity prior to initiating foreclosure in the Claim Review File.

(6) Extensions for Foreclosure Initiation Timeframe for Home Retention Option

HUD provides automatic 90-Day extensions to the deadline to complete a Loss Mitigation Option or to perform the first legal action initiating foreclosure as follows:

- to utilize a Loss Mitigation Home Retention Option or initiate foreclosure, provided the mortgagee has:
  - evaluated and approved the Borrower for a HUD Loss Mitigation Home Retention Option prior to the expiration of the initial six-month period after the date of default, or issued an Approval to Participate in the PFS Program resulting in early termination or option failure; and
  - reported the Option via SFDMS; and
- from the date the Borrower defaulted under the Option or Trial Payment Plan Agreement, should the Option or Trial Payment Plan fail, the mortgagee must initiate foreclosure action after review of the Borrowers for other Loss Mitigation Options.

HUD does not provide automatic extensions for completion of a DIL; the mortgagee must submit any request for extension of time for completion of a DIL to the NSC for HUD approval via EVARS. HUD does not provide automatic extensions for attempting a repayment plan, Formal Forbearance, Informal Forbearance, delinquent refinance, or assumption.
(a) Requests for Additional Extensions

Mortgagees must manually submit requests for extensions of time for any other reason to the NSC for approval via EVARS.

(b) Required Documentation

The mortgagee must retain documentation of the request in the Claim Review File and must ensure that all extensions of time to initiate foreclosure are reflected in its claim.

(G) Other Extensions to the Time Requirement to Utilize Loss Mitigation Option or Initiate Foreclosure Action

The mortgagee may request additional time extensions from the NSC via EVARS. The mortgagee must request the extension of time prior to the expiration of the existing timeframe and explain why the extension is necessary.

(H) Management Review

The mortgagee must review its records before initiation of foreclosure, pursuant to 24 CFR § 203.606, and make a decision to foreclose as follows:

- The mortgagee must develop a form or checklist to document that they have reviewed the mortgage for foreclosure. A supervisor higher than the person submitting the mortgage for foreclosure must sign the document evidencing the decision to foreclose.
- The servicing mortgagee must obtain the mortgage holder’s approval of its decision to foreclose. HUD will accept a written blanket approval from the mortgage holder.
- If at any time before, during, or after the mortgagee review there is a possibility that a mortgage can be salvaged and foreclosure avoided, then the mortgagee is expected to continue to service the mortgage and to work with the Borrower to avoid foreclosure.

(I) Foreclosure Reporting

The mortgagee must report in SFDMS the Foreclosure Status Codes that accurately reflect the current stage of foreclosure.

ii. Conduct of Foreclosure Proceedings

When foreclosure is necessary, the mortgagee must give timely notice to HUD and exercise reasonable diligence in processing and completing foreclosure proceedings to acquire title and possession of the property, pursuant to 24 CFR § 203.356.
(A) First Legal Action to Initiate Foreclosure

The mortgagee must perform the first legal action to initiate foreclosure for each state as provided in Appendix V – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Timeframes.

(B) Notice to HUD of Foreclosure Initiation

The mortgagee must give notice to HUD within 30 Days of initiating foreclosure by reporting the foreclosure status in the monthly SFDMS report. The foreclosure status is reported for the current cycle or following cycle in which the first required public legal action is taken to initiate foreclosure.

(C) Notice to HOA or Condominium Associations

The mortgagee must name and properly serve HOA and condominium associations in the foreclosure proceedings in order to eliminate or reduce HUD’s responsibility for unpaid condominium/HOA fees.

(D) Timely Completion of Foreclosure

HUD measures the mortgagee’s performance in processing foreclosures according to HUD’s reasonable diligence timeframes. These reasonable diligence timeframes begin with the first legal action required by the jurisdiction to commence foreclosure and end with the later date of acquiring good marketable title to and possession of the property.

The mortgagee must document in its Claim Review File any delay in completing foreclosure and all activities performed by the mortgagee to mitigate and abide by these timeframes.

(E) SCRA Protection during Foreclosure

The mortgagee must obtain court permission prior to foreclosing on a mortgage falling under provisions of 50 U.S.C. App. § 533. A foreclosure sale or Manufactured Housing repossession during the period of military service and subsequent periods specified within the SCRA is invalid unless it meets the requirements below:

- made pursuant to a court order granted before such sale with a return made and approved by the court; or
- held pursuant to a written agreement, entered into after the commencement of Active Duty, between the parties involved, as provided in 50 U.S.C. App. § 517.
(F) Loss Mitigation during the Foreclosure Process

In the event that a change in circumstances occurs so that a Borrower may become eligible for a subsequent loss mitigation review, the mortgagee may continue with the foreclosure process while re-evaluating the Borrower for a Loss Mitigation Option.

(1) Requests Received during Foreclosure

The following describes mortgagee action regarding foreclosure proceedings and loss mitigation requests, depending on when the request is received by the mortgagee.

(a) 45 or More Days to Scheduled Foreclosure Sale Date

(i) Response

When the loss mitigation request is received 45 or more Days prior to the scheduled foreclosure sale date, the mortgagee must notify the Borrower in writing within five business days of receiving the request that:

- the Borrower’s request has been received; and
- the request is complete or incomplete.

(ii) Review

Within 30 Days of receiving a complete request, the mortgagee must review a Borrower’s request for eligibility for all Loss Mitigation Options.

(iii) Foreclosure Action

A mortgagee must not move forward with a scheduled foreclosure sale during its review.

(b) More than 37 Days but Less than 45 Days to Scheduled Foreclosure Sale Date

(i) Review

Within 30 Days of receiving a complete request, the mortgagee must review a Borrower’s request for eligibility for Loss Mitigation Options when received more than 37 Days but less than 45 Days to the scheduled foreclosure sale date.

If an incomplete request is received and is not completed despite the mortgagee’s repeated requests to the Borrower for information, the mortgagee may, at its discretion, evaluate an incomplete loss mitigation request and offer a proprietary, non-incentivized Loss Mitigation Option.
(ii) Foreclosure Action

The mortgagee must not move forward with a scheduled foreclosure sale during its review.

(c) Fewer than 37 Days Prior to the Scheduled Foreclosure Sale Date

(i) Review

A mortgagee must use its best efforts to complete a thorough and accurate review when the Borrower’s request is received fewer than 37 Days prior to the scheduled foreclosure sale date.

(ii) Foreclosure Action

HUD does not require the mortgagee to suspend the foreclosure sale. The mortgagee may proceed with a foreclosure sale if the mortgagee:

- determines after its review that a Borrower is ineligible for Loss Mitigation; or
- using its best efforts, is still unable to complete a thorough and accurate review of a Borrower’s request by the scheduled foreclosure sale date.

(2) Terminating Foreclosure Proceedings for Loss Mitigation

When a Borrower requests loss mitigation assistance after the mortgagee has initiated foreclosure, the mortgagee must terminate the foreclosure proceedings after:

- verifying that a Borrower’s financial situation qualifies them for a Loss Mitigation Option;
- allowing the Borrower at least 14 Days to either accept or reject the mortgagee’s offer of loss mitigation assistance, if the request for loss mitigation was received more than 37 Days prior to the scheduled foreclosure sale date; and
- receiving an executed Loss Mitigation Option agreement from the Borrower, indicating that the Borrower understands and agrees to the Loss Mitigation Option terms.

If the mortgagee offers a Borrower a Loss Mitigation Option with a Trial Payment Plan, the mortgagee must suspend foreclosure proceedings during the Trial Payment Plan period and terminate foreclosure proceedings upon receiving a signed Loss Mitigation Option agreement from the Borrower.
(3) Communication between Departments

The mortgagee must ensure that strong communication lines are established between their Loss Mitigation and Foreclosure departments to facilitate the coordination of loss mitigation efforts and the sharing of documentation and information relating to a Borrower’s delinquency. Both departments must be aware when a Borrower’s file is under review for HUD’s Loss Mitigation Program.

(G) Extension of Reasonable Diligence Timeframes

(1) Standard

The mortgagee may request extensions of reasonable diligence timeframes under the following conditions:

- The mortgagee must submit the time extension request to the NSC for HUD approval via EVARS prior to the expiration of the permitted timeframe. HUD will not accept verbal requests under any circumstances.
- The mortgagee must provide a adequate justification for the request for an extension of the time requirement. The mortgagee must clearly define the circumstances and reason for the request. HUD will deny vague or unclear requests.

(2) Required Documentation

The mortgagee must maintain a copy of the NSC’s written response in the Claim Review File.

(3) Delay due to Use of Loss Mitigation Home Retention Option

The mortgagee may extend its reasonable diligence timeframe to complete foreclosure based on the period of time the Borrower was performing under the terms of the Option Agreement.

(a) Non-Judicial Foreclosure States

In non-judicial foreclosure states, the mortgagee must cancel the foreclosure action to allow the Borrower to attempt the Home Retention Option.

The mortgagee may request additional time to engage in one of the actions listed in 24 CFR § 203.355.

The mortgagee must request an extension of time from the NSC via EVARS.
(b) Judicial Foreclosure States

In judicial foreclosure states, the mortgagee may temporarily suspend the foreclosure to allow for evaluation or completion of a Home Retention Option. The mortgagee must retain adequate documentation showing that the Borrower provided new information that made them eligible for a Home Retention Option after foreclosure was initiated.

(4) Delay due to Foreclosure Mediation

Where mediation is required after the initiation of foreclosure but before the foreclosure sale, the mortgagee may exclude the time required to complete the mediation when determining compliance with the reasonable diligence timeframe.

(5) Delay due to Active Duty Military Service

If a Borrower is on Active Duty military service and the mortgage was obtained prior to entry into Active Duty military service, the mortgagee may exclude the period during which the Borrower is on Active Duty military service when computing the reasonable diligence timeframe.

(6) Delay due to Bankruptcy

When a Borrower files bankruptcy after foreclosure proceedings have been initiated, HUD provides the mortgagee an automatic extension for foreclosure and acquisition of the property. The mortgagee must ensure that bankruptcy related legal actions are handled in a timely, effective manner by:

- promptly referring the action to a bankruptcy attorney after the bankruptcy is filed; and
- monitoring the action to ensure that the case is timely resolved through dismissal, termination of the automatic stay, or trustee abandonment of all interest in the secured property.

The timeframe for completing the bankruptcy action will vary based on the chapter under which the bankruptcy is filed.

(a) Chapter 7 Bankruptcy

HUD allows the mortgagee an additional 90 Days from the date of the bankruptcy filing to complete the foreclosure. For delays beyond this 90-Day period, the mortgagee must request an extension of time from HUD via EVARS and include documentation that the delay was not due to the mortgagee’s failure to timely notify the bankruptcy attorney or failure of the mortgagee’s attorney.
(b) Chapter 11, 12 or 13 Bankruptcy

HUD allows the mortgagee an additional 90 Days from the date the payments under the bankruptcy plan became 60 Days delinquent to complete the foreclosure. For delays beyond this 90-Day period, the mortgagee must request an extension of time from HUD via EVARS and include documentation that the delay was not due to the mortgagee’s failure to timely notify the bankruptcy attorney or failure of the mortgagee’s attorney.

(7) Delay in Acquiring Possession

When a separate legal action is necessary to gain possession following foreclosure, the mortgagee may extend its reasonable diligence timeframe to allow for the actual time necessary to complete the possessory action.

HUD provides this automatic extension if the mortgagee takes the first legal action to initiate the eviction or possessory action within 30 Days of:
- the completion of foreclosure proceedings; or
- the expiration of federal or local restrictions on eviction.

(H) Electronic Record Retention of Foreclosure-Related Documents

The mortgagee must retain documents relating to loss mitigation review in electronic format, in addition to requirements for retaining hard copies or originals of foreclosure-related documents. The following must be retained in electronic format:
- evidence of the servicer’s foreclosure committee recommendation;
- the mortgagee’s Referral Notice to a foreclosure attorney, if applicable; and
- a copy of the document evidencing the first legal action necessary to initiate foreclosure and all supporting documentation.

n. Acquiring Possession

On the date the deed is filed for recording, the mortgagee must certify pursuant to 24 CFR §203.381 that the property is vacant and free of Personal Property, unless HUD has agreed to accept title with the property occupied. This, and the procedures described below, applies whether title is acquired by foreclosure or by DIL of foreclosure.

i. Protecting Tenants at Foreclosure Act and State and Local Legislation

The Protecting Tenants at Foreclosure Act (PTFA) and recently enacted state and local legislation have extended the time required to complete possessory actions in many jurisdictions. The provisions of the PTFA will sunset on December 31, 2014. The mortgagee must comply with applicable PTFA requirements and state and local law.
The mortgagee may exclude the time required to comply with such legislation when determining compliance with the reasonable diligence requirement.

ii. Identification of Property Occupants

Before completion of foreclosure the mortgagee must:

- confirm the identity of all occupants;
- determine each occupant’s possible rights for continued occupancy under HUD’s occupied conveyance procedures; and
- follow HUD’s occupied conveyance procedures by sending occupants the Notice to Occupant of Pending Acquisition (NOPA) 60 to 90 Days before the mortgagee expects to acquire title.

iii. Notice to Occupant of Pending Acquisition

(A) Notice to Borrower

At least 60 Days but not more than 90 Days before the mortgagee reasonably expects to acquire title, the mortgagee must notify the Borrower and each head of household occupying a unit of the property of the possibility that the mortgagee will convey the property to HUD following foreclosure the NOPA must:

- provide a summary of the conditions under which continued occupancy is permissible;
- provide other information as specified in 24 CFR § 203.675(b); and
- be sent via certified mail or with a signature confirmation service to ensure receipt of the notice by occupants.

(B) Sample Notice to Occupant of Pending Acquisition

(To be prepared and sent via certified mail or with a signature confirmation service by the mortgagee to all property occupants)

NOTICE TO OCCUPANT OF PENDING ACQUISITION

(Name)                                  (Date)

(Street Address)

(Town or City)

(HUD/FHA Case No.)

AVISO IMPORTANTE PARA PERSONAS DE HABLA HISPANA.

ESTO ES UN AVISO MUY IMPORTANTE. SI NO ENTENDE EL CONTENIDO, OBTENGA UNA TRADUCCION INMEDIATAMENTE. SI USTED NO RESPONDE DENTRO DE VEINTE (20) DIAS, PUEDE QUE TENGA QUE MUDARSE DE LA CASA O APARTAMENTO EN QUE VIVE.
Dear ______________________:

The mortgage for the property in which you are living is in foreclosure as a result of the property owner’s default. Within the next 60 to 90 days, title to the property is expected to be transferred to [NAME OF MORTGAGEE]. Sometime thereafter, ownership of the property will probably be transferred to the Secretary of Housing and Urban Development (HUD).

HUD generally requires that there be no one living in properties conveyed to the Secretary as a result of a foreclosure. As the Federal Housing Administration’s (FHA) Single Family Program is a mortgage insurance program, it must sell all acquired properties and use the proceeds of sale to help replenish the FHA Mortgage Insurance Fund. It is not a rental program. There are other programs within HUD that assist in making rental housing available.

However, before [NAME OF MORTGAGEE] conveys the property to HUD, you may be entitled to remain in the property for some period of time, pursuant to the Protecting Tenants at Foreclosure Act of 2009 (PTFA) or state or local law. If you are a bona fide tenant (someone other than the borrower, or the child, spouse, or parent of the borrower occupying the property pursuant to a bona fide lease or tenancy), a separate notice regarding your occupancy rights under PTFA will be provided to you when complete title to the property is transferred to [NAME OF MORTGAGEE] as a result of an order of a court or pursuant to provisions in the mortgage, deed of trust or security deed.

Instructions: Mortgagees may insert here any language they deem necessary to inform occupants of the conditions under which they might be eligible to remain in the property pursuant to the PTFA or state or local law, and/or for the mortgagee to request information from the occupant that would be needed for the mortgagee to determine whether the occupant qualifies.

If you are not entitled to remain in the property pursuant to the PTFA or state or local law, you may nevertheless be eligible to remain in the property upon conveyance to HUD, if certain conditions are met, as described in Attachment 3, Conditions for Continued Occupancy. To be considered for continued occupancy upon conveyance to HUD, you must submit a written request to HUD within 20 days of the date at the top of this letter. Oral requests are not permitted.

Please use the enclosed Attachment 1, form HUD-9539, Request for Occupied Conveyance, in making your request, as it gives HUD information it needs to make its decision. You must send your request and the enclosed Attachment 2, Request for Verification of Employment, to HUD’s Mortgagee Compliance Manager (MCM) at the following address: [MORTGAGEE’S ADDRESS].
If an individual residing in the property suffers from a permanent, temporary, or long-term illness or injury that would be aggravated by the process of moving from the property, please also provide supporting documentation of the illness or injury. This documentation must include a projection of the date that the individual could be moved without aggravating the illness or injury and a statement by a state-certified physician establishing the validity of your claim.

Additional information that you wish to include with your request may be written on additional pages that you attach to the *Request for Occupied Conveyance* form.

If HUD approves your request to remain in the property, you will be required to sign a month-to-month lease and pay rent at the prevailing fair market rate. If HUD does not in fact become owner of this property, any decision it may make with respect to your continued occupancy will no longer apply.

Your right to continued occupancy of the property under HUD’s Occupied Conveyance policies will only be temporary, depending on the circumstances, as described in Attachment 4, Temporary Nature of Continued Occupancy.

For assistance in finding affordable housing, you may wish to contact one or more of HUD’s approved housing counseling agencies. These agencies usually provide services at little or no cost. A counselor may be able to recommend other organizations that can also be of assistance. If you have access to the Internet, you may locate a local housing counseling agency by visiting the following webpage: http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm. Alternatively, you may call the HUD Housing Counseling and Referral Line, weekdays between 9:00 am and 5:00 pm EST. The Referral Line telephone number is (800) 569-4287.

If you have any questions concerning this notice, please contact [NAME AND CONTACT INFORMATION OF MORTGAGEE].

Sincerely,

____________________________
Signature
Title

Attachments:
Attachment 1 (form HUD-9539, *Request for Occupied Conveyance*)
Attachment 2 (Request for Verification of Employment)
NOTE: Mortgagees may use their own standard employment verification forms.
Attachment 3 (Conditions for Continued Occupancy)
Attachment 4 (Temporary Nature of Continued Occupancy)

Attachment 3 (Conditions for Continued Occupancy)
HUD’s Occupied Conveyance Procedures

CONDITIONS FOR CONTINUED OCCUPANCY

The following conditions must be met before HUD can approve the occupied conveyance of an acquired property.

One or more of the following must be met, as determined by HUD in HUD’s sole and absolute discretion pursuant to authority provided in FHA occupied conveyance regulations 24 CFR §§ 203.670-681 and additional guidance provided by the Department:

Your occupancy is necessary to protect the property from vandalism;
The average time in inventory for HUD’s unsold inventory in the residential area in which the property is located exceeds six months;
With respect to two-to four-unit properties, the marketability of the property would be improved by your continuing occupancy;
The high cost of eviction or relocation expenses makes eviction impractical; or
An individual residing in the property suffers from a permanent, temporary, or long-term illness or injury that would be aggravated by the process of moving from the property.

The house must be habitable (except for approval under condition 1(e)).
You must have been living in the house at least 90 days prior to the date the mortgagee acquires title to the house (except for approval under condition 1(e)).
You must agree to sign a month-to-month lease at fair market rent on a form prescribed by HUD at the time HUD acquires the property.
You must have the financial ability to make the monthly rental payments under the terms of the lease.
You must agree to pay one month’s advance rent when you sign the lease (except for approval under condition 1(e)).
You must allow access to the property during normal business hours:
By HUD representatives for a physical inspection of the property, with two days advance notice;
By HUD contractors doing repairs, with two days advance notice; and
By real estate brokers and their clients with two days advance notice.
You must disclose the complete and accurate Social Security Number (SSN) assigned to you and to each member of your household.

Attachment 4 (Temporary Nature of Continued Occupancy)

HUD’s Occupied Conveyance Procedures

TEMPORARY NATURE OF CONTINUED OCCUPANCY
This is to advise you that occupancy of HUD-owned property is temporary in all cases and is subject to termination to facilitate preparing the property for sale and completing the sale. Temporary means that your lease arrangement with HUD is subject to termination at the convenience of the government upon 30 days’ notice, or otherwise in accordance with applicable law. You should not view your occupancy of the property as a permanent or long-term arrangement. It is HUD’s policy to ask you to vacate the property and, if necessary, take appropriate eviction action for the following causes:

- Your failure to execute the lease;
- Your failure to pay the required rent, including the initial payment at the time of execution of the lease;
- Your failure to comply with the terms of the lease;
- Your failure to allow access to the property upon request to accomplish necessary repairs, inspect the property, or allow real estate brokers to show the property to prospective purchasers;
- Necessity to facilitate preparation of the property for sale and for completion of the sale; or
- Assignment of the property by HUD to a different use or program.

(C) Required Documentation

The mortgagee must provide to HUD’s MCM by uploading into P260:

- an electronic copy of each NOPA; and
- all documentation and information obtained regarding existing leases and tenancies.

iv. Occupied Conveyance Requests to HUD

If an occupant contacts HUD within 20 Days of the date of the mortgagee's NOPA, requesting to remain in the property, HUD will notify the mortgagee. If the mortgagee has not received such notification from HUD within 45 Days after sending the notices, the mortgagee must convey the property vacant, unless otherwise directed by the MCM.

v. Approved Occupied Conveyance Requests

If HUD grants occupied conveyance, the mortgagee must convey the property occupied under HUD’s occupied conveyance regulations and procedures provided by the MCM.

vi. Denied Occupied Conveyance Requests

If HUD denies occupied conveyance, the mortgagee must determine if PTFA is applicable or if there is some other occupancy protection under state or local law that would require the mortgagee to delay possessory action. If the mortgagee determines that the PTFA is applicable, the mortgagee must:
• follow PTFA requirements before evicting the occupant; and
• attempt to obtain documentation of existing leases and tenancies for the claim file, as evidence of the applicability of the PTFA and the additional time needed to comply with the PTFA.

vii. Rents under Bona Fide Leases

The mortgagee must attempt to collect rents payable under bona fide leases and tenancies and, in the event of default, to take possessory action pursuant to the rental contract terms and applicable law.

viii. Cash for Keys Consideration

(A) Definition

Cash for keys is a monetary consideration offered as an alternative to legal eviction to property occupants after foreclosure.

(B) Standard

If property occupants fail to evict the property after the first notice to quit is delivered, the mortgagee may offer up to $____ per dwelling in exchange for the property occupants vacating within 30 days of the cash for keys offer. Prior to releasing the funds, the mortgagee must inspect the property to ensure that:
• the property is in Broom-swept Condition; and
• all built-in appliances and fixtures remain in the property.

(C) Required Documentation

The mortgagee must document in its Claim Review File the date and amount of the offer, the date of vacancy, and the occupant’s receipt of the funds.

ix. Reporting to Consumer Reporting Agencies and the IRS

The mortgagee must:
• comply with applicable law and federal regulations relating to reporting to consumer reporting agencies; and
• ensure that all reported information is accurate.

The mortgagee is also responsible for any required IRS reporting, in accordance with the IRC.
o. Conveyance of Acquired Properties

i. Conveyance Timeframe

The mortgagee must acquire clear, marketable title and transfer the property to HUD within 30 Days of the latter of:
- recordation of the foreclosure deed;
- recordation date of a DIL of foreclosure;
- acquisition of the property;
- expiration of the redemption period; or
- HUD-approved time extensions.

In cases where the mortgagee arranges for a direct conveyance of the property to the Secretary, the mortgagee must convey the property to HUD within 30 Days of the end of the reasonable diligence timeframe.

ii. Condition of Properties

(A) Acceptable Conveyance Condition

At the time of conveyance to HUD, a property meets the following conditions:
- The property is undamaged by fire, flood, earthquake, hurricane, tornado, boiler explosion (if a condominium) or mortgagee neglect.
- The property is secured and, if applicable, winterized.
- Interior and exterior debris is removed, with the property’s interior maintained in Broom-swept Condition and the lawn maintained.

Broom-swept Condition is the condition of a property that is free of dust, dirt, hazardous materials or conditions, personal belongings and interior and exterior debris.

(B) HUD Contact

(1) Mortgagee Compliance Manager

HUD’s MCM is the single point of contact to administer mortgagee compliance functions and property preservation activities.

(2) P260

P260 is HUD’s web-based internet portal, which allows mortgagees to submit requests, notifications, and documents and obtain approvals for pre- and post-conveyance activities.
(C) Mortgagee Property Preservation and Protection Action

The mortgagee must preserve and protect properties securing foreclosed FHA-insured mortgages, as required by 24 CFR §§ 203.377-381 and 24 CFR § 234.270.

(1) Mortgagee Neglect

   (a) Definition

   Mortgagee neglect is the mortgagee’s failure to take action to preserve and protect the property.

   (b) Standard

   The mortgagee remains responsible for property damage or destruction to vacant or abandoned property resulting from mortgagee neglect. HUD may refuse conveyance or accept conveyance and reduce the mortgagee’s claim by that amount.

(2) Use of Preservation and Protection Firms

The mortgagee remains fully responsible to HUD for its actions and the actions of its agents, individuals, and firms performing Preservation and Protection (P&P) services.

(3) Local P&P Requirements

The mortgagee must contact the MCM for guidance when local codes require more extensive protection than stated in HUD guidance.

(4) Photograph Requirements

   (a) Standard

   The mortgagee must use digital photography to document the before and after condition of the property when performing P&P actions. The mortgagee must date and label each photograph.

   (b) Required Documentation

   The mortgagee must upload the photographs into P260 in order to claim P&P expenses.
(5) Securing the Property

(a) Standard

The mortgagee must secure the property to prevent unauthorized entry and protect against weather-related damage as follows:

- secure all windows and doors, replacing locking mechanisms where inoperable or missing;
- double-lock any sliding doors;
- secure garage doors and outbuildings with a padlock and hasp, if no other locking mechanism exists;
- unplug automatic garage door openers and leave any remote keys or transmitters in a kitchen counter drawer;
- remove broken glass from interior and exterior areas and replace or board the damaged opening;
- rekey locks on the front and rear entry to random identical key codes;
- if there is a deadbolt lock on the main entry door, replace the handle set and key the deadbolt the same as the handle set;
- for other entryways providing immediate access to a living area, attached garage or basement, secure the entryway with a knob-lock or rekey if there is an existing deadbolt lock, and key the same as the front and rear entry doors; and
- display 24-hour emergency contact information in a front window, clearly listing a point of contact for access to the property.

(b) Required Documentation

The mortgagee must document key codes to the existing or replacement lock in the Mortgagee’s Comments section of form HUD-27011 Part A.

(c) Pools, Hot Tubs and Spas

(i) In-Ground Pools and Hot Tubs or Spas Sharing the Same Filtering System

The mortgagee must:

- secure the pool, hot tub, and/or spa with a cover to prevent entry;
- secure any fences around the pool, hot tub, and/or spa to restrict access; and
- not drain the pool, hot tub, and/or spa.

The mortgagee must perform monthly maintenance and chemical treatments to operational pools and hot tubs or spas sharing the pool filtering system.
(ii) Above-Ground Pools

Where the above-ground pool has built-up with decking or other infrastructure that provides value and will support a pool cover, the mortgagee must secure the pool with a cover to prevent entry.

Where the above-ground pool is in poor condition or cannot be secured, the mortgagee must:
- remove the above-ground pool; and
- remediate any resulting depression in the ground that may constitute a hazard.

(iii) Hot Tubs and Spas

The mortgagee must drain and secure portable hot tubs and spas.

If a hot tub or spa is outdoors, the mortgagee must secure the hot tub or spa with a cover that prevents entry.

(d) Boarding of Property Openings

The mortgagee may seek reimbursement for boarding on a “per opening” basis, up to the maximum allowance per property, when the following conditions are met:
- the property has been secured; and
- the following specifications shall be followed:
  - Windows: Secured with \( \frac{1}{2} \)" plywood or equivalent
  - Doors: Secured with \( \frac{5}{8} \)" plywood or equivalent
  - Other Openings: French doors and sliding door openings should be secured with \( \frac{3}{4} \)" plywood or equivalent

The mortgagee must board all openings not otherwise secured by security bars. The mortgagee must secure but not board pet openings in doors.

(6) Yard Maintenance and Snow Removal

(a) Definitions

Grass cuts are the P&P actions of mowing, weeding, edge trimming, sweeping of all paved areas, and removal of all lawn clippings, related cuttings, and debris.

(b) Standard

The mortgagee must ensure that yards are maintained as follows:
• grass must be cut to a maximum of two inches in height;
• grass and weeds must be cut to the edge of the property line, trimmed
around foundations, bushes, trees, and planting beds; and
• grass and weeds must be trimmed flush with fences and other
construction that would normally require trimming.

(c) Locations with One Grass-growing Season

If there is one grass-growing season in the geographical location of the
property, the mortgagee may only seek reimbursement for one initial cut per
12-month period.

(d) Locations with Multiple Grass-growing Seasons

If there are multiple growing seasons, the mortgagee may only seek
reimbursement for one initial grass cut at the beginning of each grass-growing
season.

(e) Timelines for Grass Cuts

The following table provides timelines for completing initial grass cuts per
state/territory.

<table>
<thead>
<tr>
<th>Timeframe for Initial Grass Cut</th>
<th>State/Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td>When needed, during any month of the year</td>
<td>Alabama, Arizona, California, Florida, Georgia, Guam, Hawaii, Louisiana, Mississippi, Nevada, New Mexico, Puerto Rico, South Carolina, Virgin Islands, and Texas</td>
</tr>
<tr>
<td>June 1 to September 30</td>
<td>Alaska</td>
</tr>
<tr>
<td>April 1 and October 31</td>
<td>All other states</td>
</tr>
</tbody>
</table>

If conveyance occurs during the growing season, a final grass cut should be
completed within two weeks of conveyance.

After the initial cut, the mortgagee should complete grass cuts twice a month
during the periods listed in the chart above.

(f) Shrubs

The mortgagee must trim shrubs and remove cuttings once in a growing
season, between April 1 and October 31.
(g) **Snow Removal**

The mortgagee must ensure that the property is safe and accessible throughout the winter season by:

- removing snow from the entire entryway, walkways, porch and driveway following a minimum three-inch accumulation; and
- complying with local codes and ordinances governing the removal of snow and ice.

(h) **HOA Yard Maintenance**

If an HOA or condominium association provides for the yard maintenance and snow removal actions, the mortgagee must not order duplicate yard maintenance and snow removal actions.

(7) **Winterization Requirements**

(a) **Timeframe for Winterization**

In jurisdictions where winterization is required, the mortgagee must winterize the property once between October 1 and March 31. Should the initial winterization no longer be effective, the mortgagee must re-winterize the property.

The mortgagee is responsible for any damage to plumbing and heating systems, sump pumps, and wells caused by untimely, inadequate, or improper maintenance or winterization.

(b) **Utilities**

Unless utilities are required to remain on to protect the property, the mortgagee must turn all utilities off.

Where utility disconnection fees and charges make it cost-effective to maintain utility service rather than disconnect the service, HUD authorizes the mortgagee to determine and utilize the most cost-effective method of managing utilities.

(i) **Condominiums and Attached Dwellings**

The mortgagee may permit utilities to remain on in properties where the utilities are shared with other units or attached dwellings.
(ii) Sump Pumps

If the mortgagee determines that a sump pump is operating on the property, the mortgagee must ensure that the electricity remains on, regardless of whether the property is located in a state where utilities are required to be turned off.

(iii) Utility Accounts

The mortgagee must retain all utility accounts in its name until conveyance of the property to HUD.

In states where utilities should remain on, if there is any reason to believe that a Borrower may abandon a property, the mortgagee must contact the utility company to request notification of non-payment of utilities so that utilities can be transferred to the mortgagee’s name if the Borrower vacates the property.

(iv) Propane and Oil Systems

In those jurisdictions requiring heat to remain on, the mortgagee must put a “KEEP FULL” contract on with a local supplier when the property has a propane or oil heating system.

(v) Domestic Water

If the water supply source is a public system, the mortgagee must:
- contact the water provider to turn off the water supply at the curb; and
- notify the water provider when water is turned off so that a final meter reading may be completed.

The mortgagee must not cut water lines or remove water meters.

(vi) Wells

If the water supply is a private well, the mortgagee must:
- turn off the well at the breaker panel;
- tape off the breaker;
- disconnect the water supply line between the property and pressure tank;
- install a hose bib on the pressure tank side of the breaker, tagging the hose bib “For Water Testing;”
- drain all pressure tanks;
- drain pump housing, if the pump is surface mounted;
disconnect the check valve and drain all pump, suction, and
discharge pipes, if the pump is submersible; and
• winterize all fixtures.

(8) Demolition

Where a local jurisdiction mandates demolition of a property after foreclosure, the
mortgagee must provide the following to the MCM immediately upon discovery
of the demolition order:
• copies of all notices pertaining to demolition orders and hearings; and
• inspection reports and photographic documentation establishing the
condition of the property when the mortgagee first entered or took
possession of the property.

Within 10 Days of receiving the notification from the mortgagee, the MCM will
advise the mortgagee as to whether to proceed with the demolition or to postpone
the demolition until after conveyance to HUD.

(a) Requests Less than Five Business Days before Conveyance

The MCM will reject any requests received less than five business days before
the end of the timeframe to convey to HUD, unless the mortgagee can
demonstrate that it received the demolition notification with insufficient time
to make a request by the five business day deadline.

(b) Cost of Demolition

The cost of demolition is not included in the maximum cost limit per property.

(c) Damage due to Mortgagor Neglect

If HUD determines that the damage to the property is due to mortgagee
neglect, HUD will hold the mortgagee responsible for the cost to demolish the
property. The MCM will determine the acceptance of the vacant lot. The
mortgagee must reduce their claim for insurance benefits by such an amount.

(D) Conveyance of Damaged Properties

(1) Conveyance without Prior HUD Approval

The mortgagee may convey damaged properties without prior written approval if
there is damage resulting from Borrower neglect and the damage was discovered
and documented at the initial Occupancy Inspection.
(2) Conveyance Requiring HUD Approval

For properties that were damaged while under the control of the mortgagee or as a result of mortgagee neglect, the mortgagee must obtain approval from the MCM to convey the damaged property to HUD. In its request to convey the damaged property, the mortgagee must include the following documentation:

- the date of vacancy;
- evidence validating the property condition at vacancy;
- inspection reports; and
- a chronology of actions performed by the mortgagee to preserve and protect the property.

If no documentation or inadequate documentation is received from the mortgagee, HUD will attribute all the damage to the mortgagee.

(3) Mortgagee Failure to Obtain Required HUD Approval

If the mortgagee fails to obtain HUD approval, when required, prior to conveying a damaged property, HUD may:

- reconvey the property; or
- require a reduction to the claim for insurance benefits, for the greater of the hazard insurance recovery or HUD’s estimate of the cost of repairing the damage.

(E) Hazard Insurance Recovery

The mortgagee must take all appropriate action to recoup all available hazard insurance proceeds, including recoverable depreciation.

(1) Extension of Time to Convey Title to HUD

Where conveyance of title to HUD jeopardizes the mortgagee's ability to receive hazard insurance proceeds, the mortgagee must request an extension of time from the MCM, providing a specific reason why the extension is warranted.

(2) Reimbursement for Recoverable Depreciation

The mortgagee may seek reimbursement for any recoverable depreciation after repairs have been completed; all damages must be repaired prior to conveyance.
(3) Recovery for Vandalism or Theft

(a) Standard

If there is evidence of vandalism or theft resulting in damage or missing built-in appliances or fixtures and the existing hazard insurance policy covers loss of or damage to these items, the mortgagee must file a claim to obtain all available insurance proceeds for damages to the property.

(b) Required Documentation

The mortgagee must document in the Claim Review File their attempt to recover the hazard insurance proceeds.

(F) Requests for Pre-Conveyance Inspection

The mortgagee remains responsible for the condition of a property when a delinquent Borrower’s property is found vacant or the mortgagee should have known it was vacant. The mortgagee may request a Pre-Conveyance Inspection of a property that has sustained damage due to Borrower neglect or surchargeable damage, and not mortgagee neglect, and has been repaired.

(1) Submission of Pre-Conveyance Inspection Request

The mortgagee may submit a request for a Pre-Conveyance Inspection to the MCM before the deed to HUD is recorded or sent for recording and before the submittal of a claim.

(2) HUD Review of Request

The MCM will review the request to determine whether a Pre-Conveyance Inspection is needed and will consider the following criteria in its decision:

- The property has completed over-allowable repairs exceeding $10,000.
- The property is affected by re-occurring vandalism and the mortgagee is requesting approval to convey the property as-is to HUD.
- The property has code violations and the mortgagee is requesting approval to convey the property as-is to HUD.
- The property is located in a PDMDA and has completed repairs exceeding $10,000.
- The property has an insurable claim with completed repairs exceeding $5,000.
- The property has unrepaired Borrower neglect damage affecting mechanical, electrical, plumbing, or structural system integrity.
- The property has uninsurable and unfinished renovations and the mortgagee is requesting approval to convey the property as-is to HUD.
(3) Pre-Conveyance Inspection

If the request for the Pre-Conveyance Inspection is approved, the MCM will order the Pre-Conveyance Inspection from HUD’s Field Service Manager (FSM), who will contact the mortgagee to coordinate the inspection. Upon completion of the inspection, the FSM will provide an inspection report indicating:

- whether the property is in conveyance condition; or
- which further actions the mortgagee must take to place the property into acceptable conveyance condition.

The mortgagee must ensure that all required actions identified on the Pre-conveyance Inspection report are completed before conveyance to HUD.

iii. Condition of Title

The mortgagee must convey good and marketable title to the Secretary. HUD regulations list certain specific and common exceptions to title to which HUD will not object. Pursuant to 24 CFR § 203.389, HUD may waive additional objections, based on local practice and the general marketability of title clouded by those objections. In some cases, title exceptions may be waived even if they impact marketability if the mortgagee is willing to accept a reduced claim for mortgage insurance benefits.

(A) Junior Liens

HUD will not accept title subject to junior liens, other than the following.

(1) IRS Liens

HUD will not object to title where there is a lien in favor of the IRS, regardless of its position, if the following conditions are met:

- IRS has been notified of the foreclosure;
- the IRS lien was established after the date of the mortgage lien; and
- the mortgagee bid at least the full amount of the indebtedness plus the cost of foreclosure.

(2) Section 235 Liens

HUD will accept title subject to a junior lien securing the repayment of Section 235 assistance payments.
(B) Payment of Taxes

(1) Taxes at Conveyance

(a) Standard

Prior to the conveyance of a property to HUD, the mortgagee must obtain and pay from taxing authorities all tax bills:
- due prior to conveyance; and
- due within 30 Days after the date of conveyance.

(b) Required Documentation

The mortgagee must:
- certify that all tax bills due at conveyance and within 30 Days of conveyance are paid as of the date of conveyance;
- document such payment and identify the most recent period for which taxes were paid in Section 32, “Schedule of Tax Information,” of form HUD-27011 Part A; and
- upload to P260 documentation validating that such payment was made.

The mortgagee must also retain invoices and paid bill receipts in the Claim Review File.

(2) Tax Penalties

When late fees and/or interest penalties are incurred as a result of the mortgagee’s failure to pay taxes prior to conveyance, HUD will not reimburse the mortgagee for late fees and/or interest penalties paid by the mortgagee, and the mortgagee must reimburse HUD for any late fees and/or interest penalties paid by HUD.

(3) Mortgagee Failure to Pay Taxes, Late Fees, and/or Interest Penalties

Where taxes, late fees and/or interest penalties are owed to the taxing authority when a property is conveyed to HUD, HUD may elect to:
- reconvey the property back to the mortgagee; or
- refuse to accept the conveyance.

(C) Payment of HOA/Condominium Fees

(1) Definitions

An HOA/condominium assessment is a periodic payment required of property owners by an HOA or condominium association.
HOA/condominium fees are HOA/condominium assessments plus interest, late charges, collection/attorney fees, and other penalties.

(2) Standard

Prior to the conveyance of a property to HUD, the mortgagee must pay HOA/condominium fees that are due and that become due within 30 Days of the date of conveyance.

The mortgagee must take the following actions:

- ensure that outstanding HOA/condominium fees are included as part of the foreclosure proceedings, in the event that the HOA/condominium management company fails to pursue these amounts in foreclosure;
- negotiate the amount required to obtain a release of outstanding HOA/condominium fees;
- obtain a release of outstanding HOA/condominium fees;
- ensure that the HOA/condominium lien, if any, is removed from the title to the property prior to conveying the property to HUD; and
- within 15 Days of conveyance, upload to P260 the paid HOA/condominium invoice and any other documentation necessary to verify that the mortgagee made such payments prior to conveyance, and, if applicable, document any common area requirements associated with gaining access to the property.

(3) Required Documentation

The mortgagee must document the payment of all final bills and liens for HOA/condominium fees in the “Comments” section of form HUD-27011.

(4) Uncooperative HOA or Condominium Associations

On a case-by-case-basis, at its sole discretion, HUD may accept conveyances where the HOA/condominium has been unresponsive or uncooperative in providing information on assessments and fees. The mortgagee must request a variance through HUD’s MCM by submitting:

- a certification stating that the mortgagee has exhausted all methods of obtaining and paying the outstanding HOA/condominium assessments and fees; and
- documentation evidencing its attempts to obtain and pay these assessments and fees as follows:
  - at least three phone calls;
(D) Payment of Water and Sewer Bills and Other Assessments

(1) Standard

Prior to the conveyance of a property to HUD, mortgagees must research, obtain, and pay all available utility bills that may become a lien attached to a property after foreclosure as follows:

- In states where utilities are not required to remain on to protect the property, mortgagees must obtain and pay a final bill up to the date of conveyance.
- In states where utilities are required to remain on, mortgagees must pay:
  - bills that are due prior to conveyance; and
  - within 60 Days after the date of conveyance, the final bill calculated to the day on which utilities are transferred to HUD.

(2) Required Documentation

For properties in states where utilities are not required to remain on to protect the property, no later than 60 Days after conveyance, the mortgagee must upload to P260 the paid invoice and any other documentation necessary to verify that the mortgagee made such payments.

For properties in states where utilities are required to remain on, the mortgagee must upload to P260 the paid invoices and any other documentation necessary to verify that the mortgagee made the payment for the final bill.

(3) Failure to Pay Utility Bills

If the mortgagee fails to pay utility bills, HUD, at its sole discretion, may:

- issue a Notice of Non-Compliance and demand payment from the mortgagee in an amount sufficient to satisfy any liens or encumbrances, including penalties and interest, which prevent or delay a sale; or
- reconvey the property to the mortgagee.

iv. Notice of Property Transfer

Pursuant to 24 CFR § 203.360, the mortgagee must notify the Commissioner on the date the deed to the Secretary is filed for recording, by:
v. Submission of Title Evidence for Conveyance to HUD

(A) Submission of Title Evidence via P260

The mortgagee must submit to HUD’s MCM via P260 title evidence reflecting ownership vested in the name of the Secretary no more than 45 Days after the date the deed is filed for record, pursuant to 24 CFR § 203.365.

(B) Submission of Title Evidence by Mail or Courier

The mortgagee must also mail the title evidence to HUD’s MCM. HUD allows mortgagees 45 Days, plus a 10-Day mailing period, for the MCM to receive title evidence. If the courier receipt shows that the title evidence was mailed after the 45th Day without an approved extension, HUD will consider the submission late, per 24 CFR § 203.365.

(C) Title Evidence for Manufactured Homes

(1) Standard

In title evidence for manufactured homes, the mortgagee must include evidence that:

- the manufactured home is attached to the land;
- the manufactured home is classified and taxed as real estate; and
- in accordance with the jurisdictional requirements, the title to the manufactured home has been surrendered or purged.

(2) Required Documentation

The mortgagee must certify in the “Mortgagee Comments” section of form HUD-27011 Part A that the required additional title work has been completed and that the title evidence has been uploaded into P260 before the Part A filing date.

vi. Responsibility for Property at Conveyance

The mortgagee is responsible for the property until all HUD regulatory requirements leading to conveyance have been complied with, including:

- filing for record the deed to the Secretary of HUD; and
- filing form HUD-27011 in FHAC for claim processing and payment.
The mortgagee remains responsible for the property and any loss or damage thereto should the claim be suspended due to a hard edit error, notwithstanding the filing of the deed to the Secretary.

(A) Damage at Inspection at or after Conveyance

HUD will presume that any damage discovered during HUD's first inspection of the property after conveyance occurred while the mortgagee had possession, unless the mortgagee is able to provide evidence to the contrary.

(B) Expenses Incurred at or after Conveyance

Without the express written approval of the MCM, the mortgagee must not incur expenses for protection and preservation of the property or for eviction of the occupant on or after the date the deed is filed for record.

(C) Cancellation of Hazard Insurance

The mortgagee must request the hazard insurance be canceled as of the date the deed is filed for record. The mortgagee may calculate the amount of the return premium due on a short-rate basis per 24 CFR § 203.382.

vii. Extension of Time for Conveyance

(A) Standard

HUD, through the MCM, may approve extensions of time limits for conveyance if requests meet the following conditions:
- submitted to HUD’s MCM via P260, as verbal requests will not be accepted;
- received before the original time limit expires; and
- provides adequate justification by clearly defining the circumstances and reasons for the request.

(B) Required Documentation

The mortgagee must maintain a copy of the written response from the HUD representative in the mortgagee’s Claim Review File.

viii. Reconveyance and Reapplication for Benefits

If a mortgagee fails to comply with HUD’s conveyance requirements, HUD may utilize the following administrative remedies.

(A) Reconveyance of a Property to the Mortgagee

If a mortgagee fails to comply with HUD's conveyance regulations, HUD may:
3. Default Servicing

- reconvey title to the mortgagee;
- cancel the claim for insurance benefits; and
- request reimbursement for expenses incurred for acquisition, holding and
  reconveyance, less any income received from the property, from the date the
  deed to HUD was filed for record to the date of reconveyance.

The mortgagee may reapply for insurance benefits pursuant to 24 CFR § 203.363.

(B) Withdrawal of Application for Insurance Benefits for Reconveyance

Pursuant to 24 CFR § 203.362, a mortgagee must apply in writing to HUD’s MCM
for consent to withdraw an application of insurance benefits. The mortgagee must
agree to:
- accept reconveyance of the property;
- promptly file a reconveyance for record;
- accept the title evidence it furnished to HUD; and
- reimburse HUD for expenses incurred per 24 CFR § 203.364.

ix. Curtailment of Interest

The mortgagee is responsible for self-curtailment of interest on single family claims
when it fails to meet HUD’s reasonable diligence or reporting requirements. The
mortgagee must indicate the interest curtailment date on form HUD-27011, Single-

If a mortgagee determines during its quality control review that it failed to self-curtail
when submitting the claim, the mortgagee must remit claim-related payments to HUD
through the Claim remittance feature in FHAC. For more information on remitting
payments, see Quick Start Guide: Claims Processing Functions.

x. Debt Collection and Administrative Offsets

HUD may use the debt collection and administrative offset process to collect money
owed by the mortgagee due to an improper claim amount.

(A) Demand Letter

To establish the debt, HUD will send a Demand Letter to the mortgagee. Within 30
Days of the date of the Demand Letter, the mortgagee must:
- remit overpaid amounts; or
- provide HUD’s MCM with a rebuttal supported by documentation that the
  disputed P&P work was satisfactorily completed or that the work was not the
  responsibility of the mortgagee.
(B) Notice of Intent to Collect Administrative Offset

(1) Issuance of Notice of Intent to Collect by Administrative Offset

HUD will issue a Notice of Intent to Collect by Administrative Offset to the mortgagee, should the mortgagee fail to respond to the Demand Letter or should HUD determine that the mortgagee’s rebuttal fails to demonstrate that the mortgagee is not responsible for the debt.

(2) Initiation of Offset Action

HUD will initiate the offset action if HUD does not receive the funds from the mortgagee within 30 Days from the date of the Notice of Intent to Collect by Administrative Offset, and the mortgagee has not submitted a request for a departmental review of the determination of indebtedness.

(C) Request for Departmental Review

Within 20 Days of the date of the Notice of Intent to Collect by Administrative Offset, the mortgagee may request departmental review of the determination of indebtedness in writing, including with the request:

- a copy of the original Demand Letter;
- the mortgagee’s initial response, if any;
- the Notice of Intent to Collect by Administrative Offset; and
- all documentation necessary to support the mortgagee’s request for review of the determination.

(D) Departmental Review

HUD will notify the mortgagee whether the review of the request will be conducted via documentary record or by hearing and will provide procedures for the mortgagee’s participation.

After review of the request, HUD will issue a written Final Agency Decision. HUD will accept no other requests for review after issuance of the Final Agency Decision.

p. Deficiency Judgments

Where the mortgaged property is sold at the foreclosure sale for less than the unpaid balance of the debt, HUD may seek a deficiency judgment, unless prohibited by the terms of the mortgage, pursuant to 24 CFR § 203.369.
i. Mortgages Insured On or After March 28, 1988

For mortgages insured pursuant to firm commitments issued on or after March 28, 1988, or pursuant to direct endorsement processing when the mortgagee’s underwriter signed the credit worksheet on or after March 28, 1988, HUD may require the mortgagee to pursue a deficiency judgment as follows:

- HUD will provide the mortgagee with its estimate of the FMV of the property, less adjustments;
- the mortgagee must tender a bid at the foreclosure sale in that amount; and
- the mortgagee must attempt, in accordance with state law, to obtain a deficiency judgment, pursuant to 24 CFR § 203.368(e).

For claims filed for insurance benefits, the mortgagee must assign any judgment obtained to the Secretary.

ii. Mortgages Insured Before March 28, 1988

For mortgages insured pursuant to firm commitments issued before March 28, 1988, or pursuant to direct endorsement processing when the mortgagee’s underwriter signed the credit worksheet before March 28, 1988, HUD may require the mortgagee to pursue a deficiency judgment.

For claims filed for insurance benefits, the mortgagee must assign any judgment obtained to the Secretary.

iii. Initiating Deficiency Judgments

The mortgagee can initiate the process by notifying the NSC that a Borrower meets the criteria for a deficiency judgment.

iv. Procedures for Claims Without Conveyance of Title

The mortgagee must use the CWCOT procedure when pursuing deficiency judgments against defaulting Borrowers. See Foreclosure.

v. Required Assignment of Judgments

If the mortgagee files a claim for mortgage insurance benefits, the mortgagee must assign deficiency judgments to HUD and transmit the judgment to the NSC no later than 30 Days after the amount was obtained. The mortgagee may engage in judgment collection activities if a claim for FHA insurance benefits is not filed.
q. SFDMS Default Reporting

Mortgagees must utilize SFDMS to fulfill HUD’s reporting requirements for delinquent insured single family mortgages.

i. Types of Mortgages to Report

Each month, the mortgagee must report delinquent servicing activities for all mortgages that are 30, 60, and 90 Days or more delinquent as of the last Day of the month.

The mortgagee must report the statuses of three classes of mortgages each month:

- New Delinquencies: The mortgagee must report delinquent accounts when one full installment is due and unpaid (30 Days delinquent - Status Code 42) and must continue reporting the Status Code until the delinquency 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.

ii. Timeframe for Reporting

The mortgagee must submit delinquency data by the fifth business day of the following month. Mortgagees are not barred from submission of delinquency data throughout the month.

iii. Advancing Oldest Unpaid Installment Date

If the delinquency continues after the reporting of Status Code 42 and no payment is received, the Oldest Unpaid Installment (OUI) date and the Status Date will remain the same.

If, instead, the Borrower makes one full payment but does not enter into any workout tool and/or Loss Mitigation Option, the mortgagee must report Status Code 42 with an OUI date advance for one month.

iv. Delinquency/Default Status Codes

The mortgagee must report the correct Delinquency/Default Status (DDS) Code reflecting the status of the mortgage.

The mortgagee must include applicable status dates when reporting DDS Codes. SFDMS permits the submission of delinquency data throughout the month.
v. Delinquency/Default Reason Codes

The mortgagee must ascertain and report the specific reason for the delinquency/default using the Delinquency/Default Reason (DDR) Codes.

If the mortgagee reports DDR Code 31, Unable to Contact Borrower, in SFDMS, the mortgagee must document its efforts to contact the Borrower in the servicing file and continue to try to determine the reason for the delinquency default.

vi. Error Reports and Correction

The mortgagee may receive Error Reports from two systems:
- Electronic Data Interchange (EDI), which provides the All Transaction Sets 824 (TS824) Report (See the Electronic Data Interchange Implementation Guide for additional information); or
- FHAC.

The mortgagee is responsible for retrieving Error Reports from these systems and submitting necessary corrections by the fifth business day. HUD will not provide additional time to enter corrections.

vii. Correction of a Previously Reported Status Code

When a mortgagee discovers that a previous Status Code was reported in error, the mortgagee must:
- report a Status Code 25, Cancel, to advise HUD that the last Status Code reported was in error and should be preserved as a historical record without having an effect on the default sequence; and
- report the correct Status Code.

r. Record Retention – Claim Review File

For each claim filed, the mortgagee must maintain evidence of compliance with HUD’s default servicing requirements. The mortgagee must include documentation in its Claim Review File of:
- communication with Borrowers and with HUD;
- required notices;
- evaluation for HUD’s Loss Mitigation Program, including 90-Day reviews; and
- foreclosure and reasonable diligence requirements.

The mortgagee must retain this documentation for at least seven years after the final claim or latest supplemental claim settlement date:
- The final settlement date is the date of the last acknowledgement or check received by the mortgagee in response to the submission of a claim. In certain cases, the acknowledgement may be in the form of a bill.
• The supplemental settlement date is the date of the final payment or acknowledgment of such supplemental claim. In certain cases, the acknowledgement may be in the form of a bill.

The mortgagee must make available to HUD hard or electronic copies of identified claim files within 24 hours of a request, pursuant to 24 CFR § 203.365.

The mortgagee may use electronic storage methods for all other required servicing and claim-related documents where retention of a hard copy or original document is not required.

4. Loss Mitigation Performance

a. Tier Ranking System II

HUD developed Tier Ranking methodology for measurement of a mortgagee’s performance in complying with HUD’s Loss Mitigation Program. TRS was revised in 2014, and the current methodology, TRS II, evaluates mortgagees’ overall performance in regard to delinquent mortgage servicing in general, based on the following elements:

• foreclosure prevention, which measures loss mitigation attempts as well as timeliness and appropriateness of foreclosure initiations;
• re-defaults, which measures loss mitigation claims as well as utilization of loss mitigation tools through subsequent defaults;
• SFDMS reporting, which measures defaults and the data provided by mortgagees; and
• loss mitigation engagement, which measures loss mitigation attempts, claims, and defaults.

See TRS II – Scorecard Calculation Methodology – Servicer Narrative for complete instructions.

b. Who Will be Scored

Mortgagees meeting the following criteria are scored under TRS II:

• approved to service single family mortgages;
• mortgagee approval status is active; and
• the mortgagee is the mortgagee of record for a seriously delinquent portfolio of five mortgages or more, as reflected in Neighborhood Watch for the last month in the scoring quarter.

i. Opt-Out Option

If a mortgagee meets the above criteria and has a seriously delinquent portfolio of between 5 and 25 mortgages, as reflected in Neighborhood Watch for the last month of the scoring quarter, this mortgagee will have the option to opt out of being rated.
iii. Use of Scores

NSC will continue to issue TRS II Scorecards to all eligible mortgagees; scores for mortgagees who have exercised the opt-out option are to be used for informational purposes and HUD reviews and metrics only.

iii. Publication

HUD will not make available on a public website the scores of mortgagees who have opted out of scoring.

iv. Loss Mitigation Financial Incentives

Mortgagees who have opted out of scoring will not be eligible for increased loss mitigation financial incentives for the following calendar year.

v. Process for Opting Out

A mortgagee may choose to “Opt-Out” as long as the mortgagee is eligible according to the most recently issued quarterly TRS II Scorecard. The process to request an opt-out of scoring is as follows:

- Submit the request to NSC, via email to sfdatarequests@hud.gov, no later than October 31 of the calendar year for which the mortgagee requests to opt out of scoring. The mortgagee must include:
  - “TRS II Opt-Out” in the subject line of their email; and
  - their mortgagee five-digit ID number.

Once NSC verifies the mortgagee’s status, the mortgagee will receive a confirmation email that the mortgagee has opted out of scoring for the fiscal year.

Opting out for one fiscal year of scoring does not carry over to the next fiscal year. If the mortgagee has the option available the next fiscal year, the mortgagee will need to submit another request to be verified and confirmed by NSC.

c. TRS II Elements

There are four elements that comprise TRS II:

- Foreclosure Prevention: evaluates a mortgagee’s foreclosure initiation actions, timeframes, and intervention practices;
- Re-defaults: evaluates the loss mitigation performance after a permanent Home Retention Loss Mitigation Option is utilized by the mortgagee;
- SFDMS Reporting: determines a mortgagee’s compliance with default reporting regulations; and
- Loss Mitigation Engagement: measures a mortgagee’s loss mitigation attempts and utilization of permanent Loss Mitigation Options.
Mortgagees may calculate their own TRS II scores by following the instructions provided in the [TRS II – Scorecard Calculation Methodology – Servicer Narrative](#).

d. Scores, Grades and Tiers

HUD evaluates each scoring element separately, based on activity for each month in the quarter, and then averages the elements for a quarterly score.

HUD will provide mortgagees with a TRS II Scorecard each quarter, along with a corresponding letter grade and Tier ranking. A grade of “A” will correspond to a Tier 1 ranking, a grade of “B” will correspond to a Tier 2 ranking, a grade of “C” or “D” will both correspond to Tier 3 rankings, and a grade of “F” will correspond to a Tier 4 ranking. Quarterly scores will be averaged to produce a final annual fiscal year score and grade.

<table>
<thead>
<tr>
<th>Final Fiscal Score</th>
<th>Assigned Grade</th>
<th>Corresponding Tier</th>
</tr>
</thead>
<tbody>
<tr>
<td>90.00% - 100.00+%</td>
<td>A</td>
<td>1</td>
</tr>
<tr>
<td>80.00% - 89.99%</td>
<td>B</td>
<td>2</td>
</tr>
<tr>
<td>70.00% - 79.99%</td>
<td>C</td>
<td>3</td>
</tr>
<tr>
<td>60.00% - 69.99%</td>
<td>D</td>
<td>3</td>
</tr>
<tr>
<td>59.99% or Less</td>
<td>F</td>
<td>4</td>
</tr>
</tbody>
</table>

e. Score Issuance

HUD will issue scores for each eligible mortgagee either electronically via email or via hard copy letter, if a valid email address has not been provided, after the conclusion of each fiscal year quarter.

<table>
<thead>
<tr>
<th>FY Quarter</th>
<th>Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter 1</td>
<td>Oct, Nov and Dec</td>
</tr>
<tr>
<td>Quarter 2</td>
<td>Jan, Feb and Mar</td>
</tr>
<tr>
<td>Quarter 3</td>
<td>Apr, May and Jun</td>
</tr>
<tr>
<td>Quarter 4</td>
<td>Jul, Aug and Sep</td>
</tr>
</tbody>
</table>

f. Notification of TRS II Scores

HUD will distribute quarterly TRS II Scorecards consisting of the mortgagee’s scores, grades, and Tier via email. HUD will only send hard copy letters containing scores, grades, and Tiers if the NSC cannot reach the mortgagee electronically. See the [TRS II – Scorecard Calculation Methodology – Servicer Narrative](#) for information on how to request electronic distribution.

g. Public Availability of Scores and Grades

HUD will notify mortgagees if, when, and where the public notice occurs.
All scored mortgagees, not including those that have chosen to opt out, may have their names and scores published on HUD’s Tier Ranking System website at the close of each calendar year, after all appeals have been evaluated and after mortgagees that have submitted appeals have been notified of the results.

h. Appeals

i. Basis of Appeal

The only basis for an appeal by the mortgagee receiving an “F” is disagreement with the data used by HUD to calculate the mortgagee’s grade. If HUD determines that the mortgagee’s “F” grade rating was based on incorrect or incomplete data, the mortgagee’s performance will be recalculated and the mortgagee will receive a corrected score.

ii. Timeframe

Mortgagees receiving a grade of “F” may appeal their final score no later than 30 Days after the issue date of the final fiscal year grade.

iii. Process

The mortgagee must submit the appeal to HUD’s Deputy Assistant Secretary for Single Family Housing or their designee and request an informal HUD conference.

i. Increased Incentives

HUD will use TRS II to determine those mortgagees earning “A” scores and may therefore qualify for increased loss mitigation financial incentives.

HUD uses TRS II to evaluate activity for a rolling 12-month period. The cut-off for each evaluation period or “round” is the end of each fiscal year quarter. The incentive round occurs every fourth round. In this manner, the incentive round for TRS II evaluates activity that occurred from October of the previous year through September of the current year, which is HUD’s fiscal year.

HUD uses all four quarters’ scores to determine those mortgagees that may qualify for increased incentives for the following calendar year.
APPENDIX I - PROGRAMS AND PRODUCTS

A. ADJUSTABLE RATE MORTGAGES

See Section 251 Adjustable Rate Mortgages (ARM) for information on originating ARMs.

1. Definitions

The Change Date is the effective date of an adjustment to the interest rate, as shown in Paragraph 5(a) of the model Adjustable Rate Note form.

The initial index figure is the most recent figure available before the date of mortgage loan origination.

The current index figure is

- the most recent index figure available 30 Days before the date of each interest rate adjustment, for mortgages originated before January 10, 2015, and
- the most recent recent figure available 45 days before the date of each interest rate adjustment, for mortgages originated on or after January 10, 2015

1. Adjusting the Interest Rate on an ARM

To set the new interest rate on an ARM annually, the mortgagee must review the mortgage documents containing interest rate provisions, and pursuant to 24 CFR § 203.49:

- determine the change between the initial or base index figure and the current index figure; or
- add a specified margin to the current index figure.

Once the new adjusted interest rate is calculated, the mortgagee must provide notice of the change to the Borrower.

a. Determining the Current Index Figure on an ARM

The table below describes the current index figure to use based upon the particular day of the week on which the 30th Day falls.

<table>
<thead>
<tr>
<th>When the 30th Day falls on a …</th>
<th>AND the 30th Day prior to a Change Date…</th>
<th>Then use the index figure issued on…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday that is a business day</td>
<td>and the issue date of an H.15 release both occur on the same day (that is, they both occur on a Monday)</td>
<td>that Monday.</td>
</tr>
<tr>
<td>Monday that is a federal holiday</td>
<td>falls on a Monday that is a federal holiday</td>
<td>the prior week.</td>
</tr>
</tbody>
</table>
b. Determining the Calculated Interest Rate on an ARM

The calculated interest rate is the current index, plus the margin (the number of basis points identified as “margin” in Paragraph 5(C) of the model Adjustable Rate Note), rounded to the nearest 1/8th of one percentage point (0.12 percent).

c. Determining the New Adjusted Interest Rate on an ARM

To determine the new adjusted interest rate, mortgagees must compare the calculated interest rate to the existing interest rate in effect for the preceding 12 months.

i. Calculated Rate is Equal to Existing Rate

If the calculated interest rate is equal to the existing interest rate, then the new adjusted rate will be the same as the existing interest rate.

ii. Calculated Rate is Less than Existing Rate

If the calculated interest rate is less than the existing interest rate, then the new adjusted rate will be:

- the calculated interest rate for one, three, and five year ARMs if the calculated interest rate is less than one percentage point higher or lower than the existing interest rate; or
- the calculated interest rate for five, seven, and ten year ARMs if the calculated interest rate is less than two percentage points higher or lower than the existing interest rate.

iii. Calculated Rate is More than Existing Rate

If the calculated interest rate is more than the existing interest rate, then the new adjusted rate will be:

- limited to one percentage point higher or lower than the existing interest rate for one, three, and five year ARMs, if the new calculated interest rate is more than one percentage point (100 basis points) higher or lower than the existing interest rate. (Note: Index changes in excess of one percentage point may not be carried over for inclusion in an adjustment in a subsequent year.); or
- the calculated interest rate for five, seven and ten year ARMs, if the calculated interest rate is more than two percentage points (200 basis points) higher or lower than the existing interest rate. (Note: Index changes in excess of two percentage points...
d. Interest Rate Adjustments over the Term of the ARM

Pursuant to 24 CFR § 203.49, adjustments to the interest rate over the entire term of the mortgage may not result in a change in either direction of more than:
- five percentage points (500 basis points) from the initial contract interest rate for one, three, and five year ARMs; or
- six percentage points (600 basis points) for five, seven, and ten year ARMs.

e. Effective Date of the ARM Interest Rate Adjustment

An adjusted interest rate is effective on the Change Date, and thereafter is deemed to be the existing interest rate. The new rate remains in effect until the next Change Date.

During the term of the mortgage, the Change Date must fall on the same date of each succeeding year.

2. Computing the Monthly Installment Payment after an ARM Adjustment

The mortgagee must determine a new monthly payment each time there is an interest rate adjustment. The mortgagee must calculate the portion of the monthly payment attributable to principal and interest by:
- determining the amount necessary to fully amortize the unpaid principal balance for the remaining term of the mortgage;
- crediting all eligible prepayments; and
- not debiting any delinquency.

The unpaid principal balance used to calculate the monthly installment is the balance that would be due on the Change Date, if there had been no default in any payment, but reduced by the amount of any prepayments made to the principal.

All ARM adjustments affect interest rates only; negative amortization is not permitted.

3. ARM Adjustment Notices

a. Compliance with all Applicable Laws, Rules, and Requirements

The mortgagee must comply with all laws, rules, and requirements applicable to ARM adjustment notices, including full compliance with the applicable requirements under the purview of the CFPB, including TILA.
**b. Timing of Notice**

At least annually and before any adjustment to a Borrower’s monthly payment may occur, the mortgagee must provide written notification regarding the adjustment.

**i. For Mortgages Originated Before January 10, 2015**

If the notice follows an adjustment in the monthly payment, the mortgagee must provide the Borrower notice:
- at least 25 Days before any adjustment; or
- at least 30 Days before the adjustment if the mortgage agreement contains a provision stating that 30-Day requirement.

**ii. For Mortgages Originated On or After January 10, 2015**

The mortgagee must provide notice in compliance with the timeframes set out in TILA.

**c. Required ARM Notice Content**

The content of the Adjustment Notice must meet the criteria of 24 CFR § 203.49(h).

**d. Sending the ARM Adjustment Notice**

The mortgagee must send the Adjustment Notice to the Borrower:
- by Certified Mail, return receipt requested; or
- by first-class mail to all property owners identified on its records.

**e. Failure to Provide the ARM Adjustment Notice**

If the mortgagee fails to provide notice to the Borrower for more than one year, then the mortgagee must determine an adjusted interest rate for each omitted year, in order to determine the adjusted interest rates for subsequent years, and perform the following:

**i. Interest Rate Increase**

If the mortgagee’s calculations result in an interest rate increase, the mortgagee has forfeited their right to collect the increased amount and the Borrowers are relieved from the obligation to pay the increased payment amount.

**ii. Interest Rate Decrease**

If the mortgagee’s calculations result in an interest rate decrease, the mortgagee must refund the excess, with interest at a rate equal to the sum of the margin and index in effect on the Change Date, from the date of the excess payment to the date of repayment.
After the mortgagee applies the refund to any existing delinquency, the Borrower may request:
  • a cash refund; or
  • application of the excess to the unpaid principal balance of the mortgage.

f. Errors in the ARM Adjustment Notice

HUD requires that errors be corrected if:
  • the mortgagee miscalculates the interest rate and/or the monthly payment; and
  • the errors are reflected in the notice.

g. Required Documentation

The mortgagee must retain the following in the servicing file:
  • evidence that timely notice was sent to the Borrower; and
  • annual adjustment computations for the mortgage term.

4. Commencement of Monthly Payment after ARM Adjustment

After the mortgagee gives the Borrower proper notice of the adjustment, the Borrower will begin paying the new monthly payment 30 Days after the Change Date.

5. Assumptions of ARMs

In addition to sending the applicable Notice to Homeowner, Release of Personal Liability in Assumptions, the mortgagee must attach a copy of the original ARM Disclosure Statement that established the index, margin, and the Change Date.
B. ASSUMPTIONS

All FHA-insured mortgages are assumable. The mortgagee must not impose, agree to, or enforce legal restrictions on conveyances or assumptions after origination except when:

- permitted under 24 CFR § 203.512; or
- the restriction had been specified in a junior lien granted to the mortgagee after settlement.

To determine what restrictions have been placed on the mortgage, the mortgagee must review the mortgage documents.

1. Notice to Homeowner

Pursuant to 24 CFR § 203.510, the mortgagee must send the applicable Notice to Homeowner: Release of Personal Liability, below to:

- all applicants for FHA-insured mortgages, prior to the settlement transaction; and
- sellers or buyers who request information on HUD's creditworthiness review criteria or procedures for assumptions or releases from personal liability.

a. Notice to Homeowner: Release of Personal Liability for Assumptions of Mortgages Closed on or After December 15, 1989

NOTICE TO HOMEOWNER: Assumption of FHA-Insured Mortgages; Release of Personal Liability

You are legally obligated to make the monthly payments required by your mortgage (deed of trust) and promissory note.

The U.S. Department of Housing and Urban Development (HUD) has acted to keep investors and non-creditworthy borrowers from acquiring one-to four-family residential properties covered by certain FHA-insured mortgages. There are minor exceptions to the restriction on investors: loans to public agencies and some nonprofit organizations, Indian Tribes or servicepersons; and loans under special mortgage insurance programs for property sold by HUD, rehabilitation loans or refinancing of insured mortgages. Your mortgagee can advise you if you are included in one of these exceptions.

HUD will therefore direct the mortgagee to accelerate this FHA-insured mortgage if all or part of the property is sold or transferred to a borrower or recipient who:

- will not occupy the property as his or her principal residence or HUD-approved secondary residence; or
- does occupy the property but whose credit has not been approved in accordance with HUD requirements.
This policy will apply except for certain sales or transfers where acceleration is prohibited by law.

When a mortgage is accelerated, the entire balance is declared “immediately due and payable.” Because HUD will not approve the sale of the property covered by this mortgage to an investor or to a person whose credit has not been approved, you, the original homeowner, would remain liable for the mortgage debt even though the title to the property might have been transferred to the new borrower.

Even if you sell your home by letting an approved borrower (that is, a creditworthy owner-occupant) assume your mortgage, you are still liable for the mortgage debt unless you obtain a release from liability from your mortgagee. FHA-approved mortgagees have been instructed by HUD to prepare such a release when an original homeowner sells his or her property to a creditworthy borrower who executes an agreement to assume and pay the mortgage debt and thereby agrees to become the substitute borrower. The release is contained in form HUD-92210.1, Approval of Purchaser and Release of Seller. You should ask for it if the mortgagee does not provide it to you automatically when you sell your home to a creditworthy owner-occupant borrower who executes an agreement to assume personal liability for the debt. When this form is executed, you are no longer liable for the mortgage debt.

b. Notice to Homeowner: Release of Personal Liability for Assumption of Mortgages

Closed on or After December 1, 1986, but Before December 15, 1989

NOTICE TO HOMEOWNER: Assumption of FHA-Insured Mortgages; Release of Personal Liability

You are legally obligated to make the monthly payments required by your mortgage (deed of trust) and promissory note.

If you sell your home by letting a purchaser assume your mortgage, you are still liable for the mortgage debt unless you obtain a release from liability from your mortgagee. You may obtain a release from liability by (1) making your request for the release in writing, (2) having the credit of your purchaser approved by HUD/FHA or your mortgagee, (3) requesting that the purchaser of your property execute an agreement to assume and pay the mortgage debt thereby agreeing to become the substitute borrower and (4) having your mortgagee complete form HUD 92210.1, Approval of Purchaser and Release of Seller.

If your mortgage was closed on or after December 1, 1986, but before December 15, 1989, and you sell your property but do not obtain a release from liability, and if the purchaser assumes responsibility for the debt rather than merely taking title subject to the mortgage, then both you and the purchaser of your property will be liable, both individually and jointly, for any default for a period of five years following the date of assumption. After five years, only the purchaser will remain liable unless the mortgage is in default at the time the five-
year period expires. If the purchaser takes title subject to the mortgage without assuming personal liability for the debt, you will remain liable for the full term of the loan.

If you wish to pursue being released from liability, you should get in touch with your mortgagee.

Questions concerning your release from liability should be directed to your mortgagee or you should get in touch with the Housing Management Staff of your local HUD Office. Your mortgagee can provide you with the address of the HUD Office that has jurisdiction over your property.

2. Fees for Assumptions

a. Section 143 of the Internal Revenue Code of 1986

The mortgagee must not charge any additional fees for ensuring that assumptions of mortgage revenue bond mortgages comply with requirements of the IRC.

b. Allowable Charges Separate from Assumption Processing Fees

The mortgagee may assess additional reasonable and customary fees for the following items in connection with an assumption, when not included in the processing fee:
- non-refundable fees for credit reports and verifications of employment; and
- up to $45.00 for fees for the preparation and execution of release of liability forms (form HUD 92210.1, Approval of Purchaser and Release of Seller) not in connection with a creditworthiness review.

c. Refund of Assumption Processing Fees

In the event a mortgage is not assumed, mortgagees must refund one-half of its processing fees if the assumptor’s credit is approved but assumption does not occur for reasons beyond the control of the assumptor.

d. Change of Hazard Insurance

The mortgagee may not assess a fee for processing the assumptor’s request to change hazard insurance coverage when the existing policy has not yet expired.

3. Notification to HUD of Changes

The mortgagee must notify HUD via FHAC of assumptions:
- within 15 Days of any change of Borrower; or
- within 15 Days of the date the mortgagee receives actual or constructive knowledge of the transfer of ownership.
4. Exercise of Due-on-Sale Clause

The mortgagee must enforce the due-on-sale clause in accordance with 24 CFR § 203.512 by:

- requesting approval from the NSC via fax to accelerate the mortgage, provided that acceleration is permitted by law; and
- accelerating the mortgage if approval is granted.

5. Acceleration of the Mortgage

The mortgagee may request approval from the NSC to accelerate mortgages for assumptions made:

- without credit approval; or
- where HUD assumption requirements are not met and the Borrower cannot or will not comply with HUD’s requirements at the time the assumption is discovered.

The mortgagee may not accelerate for the assumptions when:

- acceleration for assumption without credit approval is prohibited by state law;
- the seller retains an ownership interest in the property; or
- the transfer is by devise or descent.

6. Contacting Borrowers

Upon any inquiry by a seller regarding HUD's assumption requirements or upon learning that an assumption has occurred, the mortgagee must:

- attempt to obtain the forwarding address of the selling Borrower; and
- advise the selling Borrower to update the mailing address as needed.

7. Reporting of Defaults on Assumed Mortgages

In the event that an assumed mortgage goes into default, the mortgagee must not report these defaults to consumer reporting agencies for former Borrowers, whether those Borrowers remain legally liable for the mortgage debt or have been released from liability. The mortgagee should notify the former Borrowers that the assumed mortgage is in default.
C. PRESIDENTIALLY-DECLARED MAJOR DISASTER AREAS

1. Disaster Declarations

Under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. § 5121 et seq.), the President has authority to declare a major disaster for any area which has been affected by damage of sufficient severity and magnitude to warrant major disaster assistance. Disaster Declarations and information regarding available federal assistance for each disaster incident are posted on the website of the Federal Emergency Management Agency (FEMA).

Whenever the President declares a major disaster, the mortgagee must implement the procedures set forth in this section for each designated area that is eligible for federal disaster assistance.

2. Moratorium on Foreclosures

FHA-insured mortgages secured by properties located in PDMDAs will be subject to a moratorium on foreclosures following the Disaster Declaration. The foreclosure moratorium is:

- effective for a 90-Day period beginning on the date of the Disaster Area Declaration for that area (HUD may communicate further specific guidance for extension of moratorium periods for individual disasters);
- applicable to the initiation of foreclosures and foreclosures already in process; and
- considered an additional period of time approved by HUD for the mortgagee to take loss mitigation action or commence foreclosure as provided under 24 CFR § 203.355.

The mortgagee must take no action to initiate or complete foreclosure proceedings, after expiration of a disaster-related foreclosure moratorium, if such action will jeopardize the full recovery of a hazard or flood insurance settlement. The mortgagee may submit a request for an extension to HUD’s foreclosure-related deadlines via HUD’s EVARS in this circumstance.

3. Monitoring of Repairs to Substantially Damaged Homes

a. Definition

A building is considered to be “Substantially Damaged,” as defined in the National Flood Insurance Program (NFIP) regulations at 44 CFR § 59.1, when “damage of any origin is sustained by a Structure whereby the cost of restoring the Structure to its before damaged condition would equal or exceed 50 percent of the market value of the Structure before the damage occurred.”

b. Standard

The mortgagee must take appropriate actions to ensure that repairs to Substantially Damaged Properties comply with the federal building elevation standards, including those established...
The mortgagee must ensure compliance any higher applicable building elevation standard adopted by the state or local government.

4. Loss Mitigation for Borrowers in PDMDAs

Should Presidentially-Declared Major Disasters adversely impact a Borrower’s ability to make on-time Mortgage Payments, the mortgagee must provide the Borrower with forbearance and HUD Loss Mitigation assistance, where appropriate, as provided in applicable FHA policy guidance.

a. Loss Mitigation Owner-Occupant Requirement

The mortgagees must not deny a Borrower any Loss Mitigation Option solely for failure to occupy a mortgaged property if the following conditions are met:

- the mortgaged property is located within a PDMDA;
- the dwelling was the Principal Residence of a Borrower immediately prior to the disaster event;
- a Borrower intends to re-occupy the mortgaged property upon restoration of the home to habitable condition; and
- the total accumulated mortgage arrearages have not exceeded the equivalent of 12 months PITI.

b. Forbearance Options for Disaster-Affected Borrowers

Before considering an affected Borrower for a permanent solution utilizing one of FHA’s Loss Mitigation Home Retention Options, the mortgagee must first evaluate the Borrower for a forbearance, which allows for one or more periods of reduced or suspended payments without specific terms of repayment.

The mortgagee may offer forbearance relief to a Borrower with a mortgaged property or place of employment located within a PDMDA as follows.

i. Informal Forbearance for Borrowers in PDMDAs

(A) Definition

An Informal Forbearance is an oral agreement effective for a period of three months or less.

(B) Standard

The mortgagee may consider Borrowers in PDMDAs for an Informal Forbearance and may offer additional Informal Forbearance periods if the foreclosure moratorium is extended.
ii. Formal Forbearance for Borrowers in PDMDAs

(A) Definition

A Formal Forbearance is a written agreement with a forbearance period greater than three months.

(B) Standard

The mortgagee may consider Formal Forbearances for Borrowers in PDMDAs while they are pursuing home repairs and/or resolving verifiable financial difficulties related to the disaster, provided that:

- the forbearance period does not exceed the estimated time needed to complete home repairs as supported by a contract or repair estimate; and
- the total accumulated mortgage arrearages during the forbearance period does not exceed the equivalent of 12 months PITI.

c. Loan Modification without a Financial Evaluation

For Borrowers who receive Informal or Formal Forbearances based solely on location of their mortgaged property or place of employment within a PDMDA, the mortgagee must offer Rate and Term modifications at the conclusion of the forbearance period based on the following criteria.

i. Eligibility for Loan Modification without Financial Evaluation

The mortgagee must ensure that Borrowers and their FHA-insured mortgages meet the following eligibility requirements for a Loan Modification without a financial evaluation:

- The mortgage was current or less than 30 Days past due as of the date of the applicable Disaster Declaration.
- The mortgagee obtains a Verification of Employment (VOE) confirming that the Borrower’s employment status is the same as prior to the disaster.
- Home damages have been repaired.
- The dwelling is owner-occupied.

ii. Terms of the Loan Modification

The mortgagee must modify the mortgage as follows:

- The total monthly Mortgage Payment (PITI) on the modified loan must be less than or equal to the existing payment on the FHA-insured mortgage.
- The Borrower must successfully complete a three-month Trial Payment Plan.
• The mortgagee must capitalize into a modified mortgage balance the accumulated arrearages of delinquent accrued interest and eligible unreimbursed servicer advances, fees, and costs chargeable to the mortgage.
• The mortgagee waives late fees if the Borrower satisfies all conditions of the Trial Payment Plan.
• The mortgagee extends the term of the mortgage to 360 months from the modification effective date.
• The mortgagee sets the interest rate at the Market Rate as defined by HUD.

d. Required Financial Evaluation for other Loss Mitigation Home Retention Options

Following evaluation for and completion of approved forbearances, the mortgagee must evaluate eligible Borrowers for other Loss Mitigation Home Retention Options.

i. Borrower Eligibility

The mortgagee must evaluate for other Loss Mitigation Home Retention Options for those Borrowers who meet the following criteria:

• Borrowers who are not eligible for the “Loan Modification without a Financial Evaluation” Option;
• Borrowers eligible for “Loan Modification without a Financial Evaluation” who are experiencing a continuation of lower income or higher living expenses following the disaster; and
• Borrowers eligible for “Loan Modification without a Financial Evaluation” who do not successfully complete the required Trial Payment Plan.

Borrowers who do not currently have an increase in living expenses but are delinquent due to a forbearance received following a Disaster Declaration are deemed to satisfy the eligibility conditions for FHA Loss Mitigation Home Retention Options.

ii. Use of Loan Modification Option

The mortgagee must ensure that the Borrower repairs home damages and occupies the dwelling as an owner occupant before completing the Loan Modification.

e. Deeds-in-Lieu of Foreclosure

HUD may communicate specific guidance for use of special DIL of foreclosure for mortgages secured by properties located in a PDMDA.
f. **Suspension of Reporting to Consumer Reporting Agencies**

The mortgagee must suspend reporting of delinquencies to consumer reporting agencies for a Borrower who is granted disaster-related Mortgage Payment relief and is otherwise performing as agreed, unless such reporting is required for a Loan Modification.

g. **Waiver of Late Charges**

The mortgagee must waive late charges as long as the Borrower is on a forbearance plan or paying as agreed on a Loss Mitigation Option.
D. HAWAIIAN HOME LAND MORTGAGES (SECTION 247 MORTGAGES)

Under the Hawaiian Home Lands Program, Section 247 of the National Housing Act (12 U.S.C. § 1715z-12), HUD provides mortgage insurance enabling Borrowers to build on state-owned, Hawaiian Home Land property. These mortgages are represented with Automated Data Processing (ADP) Codes 759, 780, 793, 805, 808, or 811 (last three digits of the FHA Case Number).

The Hawaiian Home Lands Program is separate from other HUD and FHA homeownership programs in that there is no provision for foreclosure. In the case of nonpayment, the mortgage is assigned to HUD, who assigns the mortgage to the State of Hawaii Department of Hawaiian Home Lands (DHHL). The original mortgagee may file an insurance claim with HUD.

1. Mortgagee Reporting to DHHL
   a. Reporting of Delinquent Mortgages

   The mortgagee must report directly to the DHHL concerning Delinquent Mortgages. Pursuant to 24 CFR § 203.439(c), the mortgagee must notify the DHHL each month of which Section 247 insured mortgages on Leaseholds of Hawaiian Home Lands are delinquent on the last Day of the month or that were reported as delinquent the previous month.

   b. Contact Information for Submission of Reports

   The mortgagee meets this reporting requirement by sending form HUD-92068-A, Monthly Delinquent Loan Report, completed in FHAC, to the following address:

   Department of Hawaiian Home Lands
   Loan Services Branch
   P.O. Box 1879
   Honolulu, Hawaii 96805
   Attn: FHA Insured Section 247

   c. Timeframe for Reporting

   The mortgagee must submit the delinquency reports to DHHL by the fifth business day following the close of each month.

2. Mortgagee Reporting to HUD

   The mortgagee must make electronic reports to HUD via SFDMS for all insured mortgages that are 30 or more Days delinquent.
3. Processing Procedures for Section 247 Assignments

a. Assignment Process

The mortgagee must assign the insured mortgage and Note to HUD as part of the claims process, pursuant to 24 CFR § 203.350(c).

b. Endorsement on Original Note

An authorized agent of the mortgagee must sign the following endorsement on the original Note: “All right, title and interest of the undersigned to the within credit instrument is hereby assigned to the Secretary of Housing and Urban Development of Washington, D.C., their successors and assigns.”

c. Lost Note Affidavit

If the original Note cannot be located, the mortgagee must submit the following Lost Note affidavit.

LOST NOTE AFFIDAVIT

(     /    )

STATE OF  )
  ) SS.
COUNTY OF  )

Affiant, the undersigned, being first duly sworn on oath, deposes and says:

Affiant, as ___ of ____ (hereinafter Lender), am authorized to make this Affidavit as to a lost note evidencing a loan being assigned to the Secretary of Housing and Urban Development (hereinafter HUD), and to indemnify HUD, its successors and assigns, for damages incurred as a result.

Lender was the owner and holder of all legal and beneficial right, title and interest to that certain loan evidenced by a promissory note (hereinafter Mortgage Note) as follows:

FHA Loan No.: ____
Date: ____
Borrower(s): ____
Original Payee: ____
Original Amount: ____
Rate of Interest: ____
Address of Mortgaged Property: __________

The Mortgage Note was assigned to Lender by assignment dated ____, recorded in the Department of Hawaiian Home Lands on ____, in Book ____ on Pages ____. Said Mortgage Note has not been sold, transferred or assigned to any other party.

The original of the Mortgage Note has been misplaced or lost. Affiant has made or has caused to be made a diligent search of the records and files in Lender's possession, which records are kept by Lender in the ordinary course of business under Affiant's custody and control, and has not been able to find or recover the Mortgage Note.

Attached hereto as "Exhibit A" is a true and correct copy of the Mortgage Note, which has never been amended or modified [except by that certain Loan Modification Agreement (Providing for Fixed Interest Rate), a true and correct copy of which is attached hereto as Exhibit "B"]. Affiant agrees that if the original Mortgage Note should ever come into Affiant's possession that Affiant shall immediately surrender it to HUD, or at HUD's direction, to the current holder.

Affiant agrees that pursuant to the contract of mortgage insurance between Lender and HUD, payment of insurance benefits was conditioned upon the assignment of the original loan documents, and that Affiant has failed to submit to HUD the original Mortgage Note.

In consideration of HUD's waiver of the requirement for the assignment of the original Mortgage Note, Affiant hereby agrees that Lender shall indemnify and hold HUD, its successors and assigns, harmless from any loss, liability or damage which may be occasioned by the non-delivery of the original Mortgage Note.

____

By

Type Name: __________

Its

___________________________________________

(Office)

Subscribed and sworn to before me this ____ day of ____, 20 ____.  

____

Type Name: ______

Notary Public, State of _____

My commission expires: ____

Post Date: 09/11/2014
4. Assignment Eligibility Requirements

The mortgagee must ensure the following requirements are met before submitting a claim and assignment:

- The mortgage is in default for 180 Days or more.
- When the mortgage is 90 Days delinquent, the mortgagee notifies DHHL of the default.
- A face-to-face interview is conducted with the defaulting Borrower at least 30 Days before the application for assignment is submitted, unless not applicable under 24 CFR § 203.604(c).
- The Borrower has been properly evaluated by the mortgagee for loss mitigation.

Foreclosure actions and PFSs are not permitted on Hawaiian Home Land properties.

5. Submission of Title Evidence Package and Servicing Records for Assignment

a. Transmittal Letter

The mortgagee must include with its assignment package a transmittal letter indicating the name and telephone number of the person HUD is to contact for more information about the submission.

b. HUD Contact

For questions regarding submission of servicing records, the mortgagee may call HUD’s Honolulu Field Office to speak to a Single Family Program Specialist. For questions involving title evidence required by HUD, the mortgagee may contact the Chief Counsel at the Honolulu Field Office.

c. Title Evidence Package

The mortgagee must ensure that the Title Evidence Package contains all of the documents listed in the checklist below:

- Title Evidence Package Checklist;
- original Note endorsed to HUD in the format required by form HUD-27011, Part A;
- original mortgage with evidence of recordation by DHHL;
- recorded Consent to Mortgage signed by DHHL;
- recorded intervening assignments of mortgage, if any;
- recorded Assignment of Mortgage (AOM) to HUD with required warranty;
- copy of Borrower's Homestead Lease and recorded Lease Assignments and Amendments, if any;
- recorded Mortgage Insurance Program Rider to the Homestead Lease;
- copies of form HUD-27011, Parts A, B, and D;
- copy of Title Submission Certification;
d. Request for Title Approval

When the mortgagee files its claim, the mortgagee must also submit a request for title approval with the title evidence package to the following address:

U.S. Department of Housing and Urban Development
Office of Counsel, Honolulu Office
1132 Bishop Street, Suite 1400
Honolulu, HI 96813

e. Field Office Counsel Review

After review of the title documents, Honolulu Field Office Counsel will issue a title approval letter to the submitting mortgagee and forward the assignment package to the NSC for servicing review and final approval.

If the title documents contain deficiencies, Honolulu Field Office Counsel will issue a title deficiency letter providing the mortgagee 30 Days to cure such deficiencies.

f. National Servicing Center Approval

If the assignment is approved, the NSC will issue to the mortgagee a final approval letter acknowledging the acceptance of the assignment and approving the mortgagee to submit a claim for payment.

If HUD does not accept the assignment, HUD will:

- convey the property back to the mortgagee; and
- issue a demand for full repayment of the claim.

6. Claim Filing for Section 247 Mortgages

The mortgagee may only file a claim after:

- written notification to DHHL of the Borrower's default;
- the default remains uncured for 180 Days or more; and
- receipt of Assignment approval from the NSC.

The mortgagee may only make a claim by assigning the insured mortgage and Mortgage Note to HUD.
II. Title II Insured Housing Programs Forward Mortgages
B. Servicing
Appendix I – Programs and Products
D. Hawaiian Home Land Mortgages (Section 247 Mortgages)

a. Submitting Claims

Section 247 Assignment Claims may be submitted by utilizing FHAC and/or the Electronic Data Interchange (EDI).

b. Submitting Claims Involving Reconveyance

If this is a subsequent claim filing due to a reconveyance, then the mortgagee must submit a paper claim package to:

U.S. Department of Housing and Urban Development
Attn: Single Family Claims Branch, HWAFPC
451 7th St, SW, Room 6251
Washington, DC 20410-8000

7. Reconveyance to Mortgagee

If HUD does not accept assignment of the mortgage and Note, HUD will reassign the mortgage to the mortgagee and request repayment of the claim amount. If the claim has not yet been paid, HUD will return the submitted documents to the mortgagee.
E. SECTION 184 INDIAN HOUSING LOANS

1. Default Servicing of Section 184 Indian Housing Loan Guarantee Program

The mortgagee must service Section 184 HUD-guaranteed mortgages in accordance with the guidance and regulations on servicing performing and defaulted FHA-insured mortgages, with the following exceptions.

a. Foreclosure on Tribal Trust or Allotted Land

Where federal or tribal courts have jurisdiction on tribal trust or allotted lands where a tribal court system exists, the mortgagee must not seek foreclosure and must submit a request to assign obligations and security interests on tribal property to HUD. The mortgagee must include in its request:

- all of the documents required for claims on fee land; and
- a letter of right of first refusal to the Borrower’s tribe.

b. Claims without Conveyance of Title on Fee Simple Land

Where the property securing a Section 184 mortgage is on Fee Simple land, the mortgagee may make a claim without conveyance of title to HUD. Where HUD has directed or authorized a mortgagee to use the CWCOT Program, the mortgagee must:

- estimate the foreclosure sale date; and
- prepare and submit a hard copy form HUD-91022, Mortgage Notice of Foreclosure Sale, no later than 45 Days prior to the estimated foreclosure sale date to the following address:

  U.S. Department of Housing and Urban Development
  Office of Loan Guarantee
  451 Seventh Street, SW, Room 5143
  Washington, DC 20410
  (800) 561-5913

i. Actual Foreclosure Sale Date

If the actual foreclosure sale date occurs sooner than estimated, the mortgagee must send a corrected form HUD-91022 to the Office of Loan Guarantee.

ii. Adjusted Fair Market Value

(A) Definition

The Adjusted Fair Market Value (AFMV) is the estimate of the FMV of the mortgaged property less adjustments which may include, without limitation, HUD's
estimate of holding and resale costs that would be incurred if title to the mortgaged property is conveyed to HUD.

(B) Standard

Upon receipt of the actual foreclosure sale date notification and at least five business days prior to the actual foreclosure sale date, the Office of Loan Guarantee will forward the AFMV to the mortgagee.

If the mortgagee has not received the AFMV at least five business days prior to the foreclosure sale, the mortgagee may contact the Office of Loan Guarantee.

c. Mortgage Assumptions

i. Tribal Trust Land

When a mortgage secures a property on Tribal Trust Land, the mortgagee must prepare and provide a copy of the release of liability and a deed of transfer to the Bureau of Indian Affairs (BIA). The BIA will then record the changes and provide a copy of the approved assignment of the lease to the mortgagee. The mortgagee must submit a copy of the closing documents and the release to the Office of Loan Guarantee within 30 Days after closing.

Where the lease document requires tribal approval of the assignment of the lease to new Borrowers, the mortgagee must not proceed to closing on the assumption until and unless:

- the tribe has assigned the Leasehold to the new Borrowers; and
- the assignment has been approved by the BIA.

ii. Allotted Trust of Fee Simple Land

When a mortgage secures a property on allotted trust or Fee Simple land, the security instrument must note that the Section 184 mortgage may be assumed by a qualified Borrower. A Borrower applying to assume a Section 184 mortgage must contact the Office of Loan Guarantee to acquire the underwriting guidelines for the Section 184 mortgages.

The mortgagee must submit to HUD for review and approval all required information for assumption. The mortgagee must not approve assumptions of Section 184 mortgages without prior HUD authorization.
2. Reporting Requirements to HUD

a. Submission Process

The mortgagee must submit to HUD monthly reports reflecting all Section 184 mortgage activity. The mortgagee must submit the data to the Office of Loan Guarantee in an electronic format, Microsoft Excel formatting preferred. The mortgagee may contact the Office of Loan Guarantee at (800) 561-5913 to acquire their HUD Specialist’s email address.

b. Reporting Timeframe

Reports are due within five business days of the end of the reporting period.

c. Content of Reports

The mortgagee must include the following in its monthly and quarterly reports:

- Section 184 FHA Case Number;
- Loan Identification Number;
- Name(s) of borrower(s);
- Address of Property;
- Parcel ID;
- Next Payment Due Date;
- Remaining Principal Balance; and
- Name of Investor (if mortgage has been sold).

The mortgagee must also highlight each delinquent mortgage and provide the Borrower’s contact information and tribal affiliation.
F. SECTION 222 MORTGAGES

Authority for mortgages insured under Section 222 of the National Housing Act was repealed on July 30, 2008. The following policies apply for existing Section 222 mortgages, for which MIP are paid by the servicemember-Borrower’s branch of the military service until the servicemember’s eligibility is terminated.

1. Requirements for Section 222 Mortgages

   a. Military Branch Responsibility

      The military branch is responsible for payment of MIP on a Section 222 mortgage when the Borrower is:
      - a certified servicemember at the time of application; and
      - the owner of the property at the time of FHA endorsement.

   b. Establishing Eligibility

      The servicemember-Borrower must submit the original and two copies of a written certification of a servicemember’s eligibility, issued by the servicemember’s commanding or personnel officer, with their application for mortgage insurance under Section 222. The respective service branch determines benefits eligibility.

2. Transfers to Section 222

   If the original mortgage is insured under another section of the National Housing Act, the servicemember may request to transfer the insured mortgage to Section 222.

   a. Transfer Requests

      A servicemember requesting transfer of an insured mortgage to Section 222 must provide the mortgagee with the original and two copies of a written certification of a servicemember’s eligibility, issued by the servicemember’s commanding or personnel officer.

   b. Forwarding Documents

      If in agreement with the transfer, the mortgagee must forward these copies with a letter requesting transfer of the mortgage to the following address:

      U.S. Department of Housing and Urban Development
      Insurance Operations Division
      Attention: Systems Management Branch
      Washington, DC 20410
The mortgagee must pay MIP until notified by the FHA Comptroller that the request to transfer has been completed.

3. Sale of a Property Covered by a Section 222 Mortgage

When a servicemember-Borrower sells the mortgaged property, the mortgagee must complete a Mortgage Record Change in FHAC.

a. Sale of Mortgaged Property to Another Eligible Servicemember

If a mortgaged property is sold to another eligible servicemember who assumes the Section 222 mortgage, the mortgagee must request from the assumptor written certification from their service branch of their eligibility for a Section 222 mortgage.

If the mortgagee fails to provide this certification to HUD when requesting insurance, HUD will hold the mortgagee, and not the service branch, responsible for payment of MIP. The mortgagee should continue to collect premiums from the servicemember-Borrower and pay the premiums to FHA.

b. Collection of MIP from Servicemember Assumptor

When a mortgaged property is sold to another eligible servicemember who will assume the Section 222 mortgage, the mortgagee must continue to collect premiums from the assumptor until advised by FHA that the service branch will be responsible for future premiums.

If the mortgagee has been paying the MIP as a result of prior termination of the service branch’s responsibility for payment of premiums, the mortgagee must continue to collect premiums from the servicemember-Borrower and pay the premiums to FHA.

4. MIP Payments upon Notice of Termination

Under Section 222, HUD does not require the mortgagee to collect MIP from the Borrower or to remit premiums to FHA until advised by FHA that the service branch will no longer pay the premiums.

When FHA is notified that the mortgaged property has been sold or that the servicemember has been discharged, retired, or has died, FHA will:

- request confirmation from the service branch of the termination of MIP; and
- notify the mortgagee to begin collecting MIP from the servicemember-Borrower.
5. **Continued Payment of MIP by Service Branch When Servicemember Dies on Active Duty**

The service branch is responsible for determining continued eligibility of servicemember-Borrowers. If a servicemember-Borrower dies while on Active Duty and is survived by a spouse, the service branch will be responsible for the following:

- continuing to pay MIP on the mortgage until two years after the servicemember’s death or until the spouse disposes of the property, whichever occurs first;
- notifying FHA when eligibility terminates; and
- paying MIP until confirmation of the termination is received by the FHA Comptroller.

FHA will notify the mortgagee of its responsibility for payment of the MIP.

6. **Loss Mitigation for Section 222 Mortgages**

The mortgagee must evaluate all applicable Loss Mitigation Options for Section 222 mortgages.
G. GOOD NEIGHBOR NEXT DOOR

The Good Neighbor Next Door (GNND) Sales program enables eligible law enforcement officers, teachers, firefighters, or emergency medical technicians to purchase, at a 50 percent discount from the list price, a specially designated HUD-acquired single-unit home that is located in a HUD-designated Revitalization Area. In return, the eligible buyer must:

- own and live in the home as their sole residence for a term of 36 months;
- certify initially and annually to meeting this occupancy requirement; and
- execute a Note and second mortgage on the home, payable to HUD, for the difference between the list price and the discounted sales price.

If the GNND participant sells their home or stops living in the home as their sole residence prior to the expiration of the owner-occupancy term, they will owe HUD the amount due on the second mortgage as of the date the property is either sold or vacated. See REO Disposition for additional information on purchase of a property under GNND.

1. Owner-Occupancy Term

The required 36-month owner-occupancy term commences either 20, 90, or 180 Days following closing, depending on the amount of required home repairs as provided in 24 CFR § 291.540.

a. Term Interruption Requests

HUD may allow interruptions to the occupancy term when necessary to prevent hardship. At least 30 Days before the anticipated interruption, the Borrower must submit a written and signed request for approval of an interruption of the owner-occupancy term to HUD’s Servicing Contractor, including the following information:

- the reason(s) why the interruption is necessary;
- the dates of the intended interruption; and
- a certification that:
  - the GNND program participant is not abandoning the home as their permanent residence; and
  - the GNND program participant will resume occupancy of the home upon the conclusion of the interruption and complete the remainder of the 36-month owner-occupancy term.

b. Active Duty Military Service

Eligible GNND program participants who are also military service members protected by the SCRA are not required to submit their written request to HUD 30 Days in advance of an anticipated interruption, but must submit their written request as soon as practicable upon learning of a potential interruption.
HUD may grant exceptions to the occupancy requirement for participants who are called to Active Duty service. The mortgagee must instruct these participants to notify the NSC when Active Duty military service would require temporary relocation outside of the commuting area of the property purchased under the GNND program.

2. MIP Collection for GNND Properties

The mortgagee must not include the Note and second mortgage, mandatory under the GNND program, in the calculation of annual MIP associated with the purchase of a GNND property.

3. Second Mortgage and Note Servicing

HUD’s Servicing Contractor is responsible for the servicing of GNND second mortgages. The mortgagee must submit requests for pay-off amounts, subordinations, mortgage releases, or other servicing information to HUD’s Servicing Contractor.
H. HOPE FOR HOMEOWNERS

The Housing and Economic Recovery Act of 2008 amends the National Housing Act to authorize the temporary HOPE for Homeowners Program (also referred to as the H4H Program). Under the Program, a Borrower facing difficulty paying their mortgage will be eligible to refinance into an affordable FHA-insured mortgage. The H4H Program is effective for endorsements on or after October 1, 2008, through September 30, 2011.

The last day to obtain a new H4H case number was July 29, 2011. FHA has not issued any new case numbers to mortgagees seeking to refinance Borrowers into H4H mortgages after this date.

1. HUD Contact

Mortgagees should contact HUD’s Servicing Contractor for questions related to servicing or satisfaction of H4H Exit Premium Mortgages (EPM).

2. Annual Premium

The mortgagee must collect the annual premium at .75 percent of the Base Loan Amount. The mortgagee must follow standard FHA guidelines for the cancellation of the annual premium.

3. Prohibition against Subordinate Financing

a. Property Preservation Liens

HUD prohibits Borrowers under the H4H Program from taking out new subordinate liens during the first five years of the mortgage, except when necessary to ensure maintenance of property standards. During the first five years of the mortgage, FHA will permit only junior property preservation liens if:

- the proceeds are essential to preserve and protect the property;
- the condition to be repaired represents a health and safety hazard and/or the failure to make the repair will cause the property condition to deteriorate;
- the cost of the proposed repair is reasonable for the geographic market area as determined by HUD’s residential property management contractor;
- the repairs are not primarily cosmetic and do not represent routine maintenance; and
- the financing is a closed-end mortgage under the Federal Reserve Board’s Regulation Z.

When a subordinate lien is made to protect and preserve the property, HUD will subordinate the EPM Note and mortgage to the new subordinate lien.
b. Financing Liens

HUD will not subordinate its initial equity to any subordinate financing, except for property preservation liens as described above and FHA Loss Mitigation Program liens.

4. Voluntary Termination of Mortgage Insurance

The Borrower and mortgagee may mutually request termination of mortgage insurance. The Borrower will not receive a refund of any upfront MIP received by HUD and will remain obligated for the exit premium and appreciation mortgages, which can be discharged only as provided in other sections of this guidance.

5. Sale and Payoff

Upon sale or other disposition of the property securing an H4H mortgage, the Borrower must satisfy HUD’s equity interest, if not already satisfied through refinance. HUD is entitled to its respective percentage of the initial equity amount as stated in the EPM, even if there are no net proceeds or if net proceeds are negative.

Upon receipt of a payoff request, HUD’s Servicing Contractor will calculate the payoff amount for its equity interest and issue a payoff demand to the closing agent.

6. Refinancing

HUD will permit the refinancing of an H4H mortgage subject to the requirements established in this section. In the event of any refinance of the H4H mortgage, the Borrower must pay to HUD its full equity interest as stated in the EPM.

a. FHA Streamline Refinance

HUD does not permit H4H mortgages to be refinanced using the FHA streamline process.

b. Refinance into Other Conventional Loan Products

HUD will permit the refinancing into another conventional loan product no earlier than 12 months from the date of closing on the H4H mortgage. The Borrower may refinance if:

- the refinance results in a 30-year amortizing fixed-rate mortgage with a principal and interest payment that is lower than the Principal and Interest (P&I) payment due on the existing H4H mortgage;
- the proceeds from the refinance are sufficient to pay off the percent of initial equity due to HUD; and
- the cash received by or on behalf of the Borrower is limited to the Borrower’s applicable percentage of initial equity created by the H4H mortgage, as stated in the EPM, any earned equity the Borrower has accrued, and any appreciation.
7. Default and Loss Mitigation

The mortgagee may utilize HUD’s Loss Mitigation Program for H4H mortgages, subject to the following special considerations.

a. Loan Modifications and FHA-HAMP Loan Modifications

HUD will subordinate the EPM to the modification of an H4H mortgage completed in accordance with HUD’s Loss Mitigation Program.

b. FHA-HAMP Partial Claim

For a Partial Claim Note, HUD does not require subordination of the EPM.

c. Pre-foreclosure Sale

The mortgagee must include the total dollar amount of the EPM in the total debt calculation for the negative equity ratio calculations.

d. Deed-in-Lieu

HUD will accept a Deed-in-Lieu (DIL) subject to the EPM lien.

8. Exit Premium

a. Definition

Initial equity is the lesser of:

- the appraised value at the time of the H4H loan origination less the original principal balance on the H4H mortgage; or
- the outstanding amount due under all existing mortgages less the original principal balance on the H4H mortgage.

b. Standard

In the event of refinance, sale, or other disposition, HUD is entitled to receive the following percentage of initial equity:

<table>
<thead>
<tr>
<th>Year</th>
<th>% of equity to be paid to FHA</th>
</tr>
</thead>
<tbody>
<tr>
<td>During Year 1</td>
<td>100% of equity</td>
</tr>
<tr>
<td>During Year 2</td>
<td>90% of equity</td>
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<tr>
<td>During Year 3</td>
<td>80% of equity</td>
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<tr>
<td>During Year 4</td>
<td>70% of equity</td>
</tr>
<tr>
<td>During Year 5</td>
<td>60% of equity</td>
</tr>
<tr>
<td>Year</td>
<td>% of equity to be paid to FHA</td>
</tr>
<tr>
<td>------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>After Year 5</td>
<td>50% of equity</td>
</tr>
</tbody>
</table>

Post Date: 09/11/2014

DRAFT
I. NEHEMIAH HOUSING OPPORTUNITY GRANTS PROGRAM

Title VI of the Housing and Community Development Act of 1987 established the Nehemiah Housing Opportunity Grants Program (NHOP), which authorized HUD to make grants to nonprofit organizations enabling them to provide mortgages to families purchasing homes constructed or substantially rehabilitated in accordance with a HUD-approved program. The program was funded by Congress in 1989, 1990, and 1991. It is no longer an active program as grant funds were exhausted in April 1991. HUD’s Servicing Contractor handles the satisfaction of liens still outstanding from this program.
J. SERVICING FHA-INSURED MORTGAGES FOR SERVICEMEMBER-BORROWERS

1. Servicemembers Civil Relief Act

The Servicemembers’ Civil Relief Act of 2003 (SCRA) as amended by Public Law 108-189, effective December 19, 2003, provides legal protections and debt relief for persons in Active Duty military service. The following protections apply to the servicing of FHA-insured mortgages:

- mortgage relief;
- termination of leases;
- protection from eviction;
- 6 percent cap on interest rates;
- stay of proceedings; and
- reopening default judgments.

a. Relief Provisions for the Military

The SCRA provides legal protections and debt relief for persons in Active Duty military service, who are defined in 50 U.S.C. App. § 511. Dependents of servicemembers are entitled to protection in limited situations. Dependents are also defined in 50 U.S.C. App. § 51.

b. Obligations and/or Liabilities Prior to Entering into Active Military Service

i. Interest Rate Cap

(A) Standard

50 U.S.C. App. § 527 states that obligations or liabilities incurred by a servicemember and/or servicemember’s spouse jointly before entering into active military service must not bear interest at a rate in excess of 6 percent per year during the period of military service.

(B) Required Documentation

Servicemembers must submit the documents listed below to the mortgagee no later than 180 Days after the date of the servicemember’s termination or release from military service:

- a written notice;
- a copy of military orders calling the servicemember to military service; and
- orders further extending military service, if any.
(C) Mortgagee Implementation

The mortgagee must limit interest to 6 percent per year effective the date on which the servicemember is called to military service. Only a court may grant exceptions if the ability of the servicemember to pay interest upon the obligation or liability at a rate in excess of 6 percent per year is not materially affected by being in military service.

ii. Reduction of Monthly Payments

When interest must be reduced to 6 percent on an FHA-insured mortgage due to SCRA, the mortgagee may calculate interest due for the period of Active Duty on a per diem basis or permit the lower interest rate for the entire first and last month of service.

(A) Mortgagee is Notified of SCRA Applicability

Where the servicemember notifies the mortgagee of their eligibility for SCRA protection, the mortgagee must:
- advise the servicemember or representative of the adjusted amount due;
- provide adjusted coupons or billings; and
- ensure reduced payments are not returned as insufficient.

(B) Mortgagee is Not Notified of SCRA Applicability

Where the servicemember does not notify the mortgagee of their eligibility for SCRA protection and submits a reduced payment, the mortgagee must:
- attempt to contact the Borrower or representative to determine whether the Borrower is on Active Duty; and
- return insufficient payment if appropriate explanation is not provided and otherwise in compliance with 24 CFR §203.556.

(c) Verification of Military Service

The mortgagee may request a statement of military service from the Department of Defense as follows:
- The mortgagee may use the Servicemembers Civil Relief Act (SCRA) website to make an SCRA query.
- The mortgagee provides the Borrower’s Social Security Number and last name.
- The SCRA website provides information regarding the Borrower’s military status.

There is no charge for this service.
2. Postponement of Foreclosure

When calculating deadlines to commence foreclosure or acquire property by other means, the mortgagee may exclude the period of time when the Borrower is in Active Duty military service. HUD does not consider postponement or delay in initiating a foreclosure while the Borrower is Active Duty military service a failure to exercise reasonable diligence, pursuant to 24 CFR § 203.346.

The mortgagee may voluntarily withhold foreclosure with or without applying partial payments that advance the date of default.
K. SECTION 235 MORTGAGES

Under the Section 235 program, HUD assists Borrowers in making their monthly Mortgage Payments by paying directly to the mortgagee a portion of the Borrower’s monthly payment as long as the Borrower remains eligible for subsidy under this program. Authority to insure new mortgages under Section 235 expired as of October 1, 1989. A Borrower with an existing Section 235 mortgage may still refinance the mortgage under the provisions of Section 235(r).

Section 235 mortgages have additional servicing requirements due to the assistance payments contract. The mortgagee must continue servicing Section 235 mortgages in accordance with published guidance, preserved here verbatim. Mortgagees should direct questions regarding Section 235 mortgage servicing to the NSC.

1. Section 235 Mortgages

Formerly HUD Handbook 4330.1, REV-5, Chapter 10

10-1 GENERAL (24 CFR 235). Under the Section 235 program, HUD assists mortgagors in making their monthly mortgage payments by paying directly to the mortgagee a portion of the mortgagor’s monthly payment as long as the mortgagor remains eligible for subsidy under this program.

Servicing of Section 235 mortgages is generally the same as that described in the previous chapters of this handbook for mortgages insured under other HUD programs, except this program has added requirements due to the assistance payments contract (Subpart C of 24 CFR 235).

A. Mortgages Subject To Recapture (24 CFR, Part 235, Subpart C). Pursuant to a firm commitment issued on or after May 27, 1981, all or part of the assistance payments is subject to recapture under certain circumstances. (Recaptures and mortgagors’ responsibilities with respect to recaptures are discussed in detail in Chapter 11).

B. Reactivation Of Section 235. The Appropriations Act of 1984 reactivated the Section 235 program in accordance with Section 226 of the Housing and Urban Rural Recovery Act (HURRA) of 1983.

The provisions of the reactivated program (which is known as Section 235 Revised/Recapture/10), are discussed in Paragraph 10-36.

10-2 CONTRACT FOR MONTHLY ASSISTANCE PAYMENTS (24 CFR 235). The terms and conditions of the assistance payment contract are contained in Subpart C of Part 235 of the HUD regulations. The issuance of the Mortgage Insurance Certificate (MIC), Form HUD-59100, to the HUD-approved mortgagee incorporates these provisions by reference to the contract between HUD and the mortgagee.

A. What Constitutes Execution Of The Contract (24 CFR 235. 310). Issuance of form HUD-59100 constitutes execution of the contract for assistance payments with respect to that particular mortgage. The date of endorsement of the MIC does not affect the term of the contract.
B. Date Contract Term Begins. The term of the contract begins on either the date of
disbursement of the mortgage proceeds or the date the mortgagor occupies the property,
whichever occurs later.
NOTE: “Date of disbursement” in this instance means the date the funds escrowed to assure
completion (in accordance with Form HUD-92300, Mortgagee’s Assurance of Completion),
have been disbursed.
C. Date Contract Term Ends (24 CFR 235. 345). The term of the contract ends on the first
day of the month following the occurrence of one of the events listed under Paragraph 10-19.
D. Definitions (24 CFR 235. 5). Listed below are definitions of some of the terms used in
this chapter as they pertain to the Section 235 program.
1. “Family” or “Household” (24 CFR 235. 5). These terms mean:
   a. a pregnant woman, or two or more persons related by blood, marriage, or operation of
      law, who occupy the same unit;
   b. a handicapped person who has a physical or mental
      impairment which is expected to be
      of a continued duration and which impedes his/her ability to live independently unless suitable
      housing is available; or
   c. a single person, 62 years of age or older.
2. “Adjusted Annual Income” (24 CFR 235. 5). This term means the annual family income
   remaining after making certain exclusions from gross annual income as shown in 24 CFR 235.
   5(a)(1), (2) and (3).
3. “Gross Annual Income” (24 CFR 235. 5). This term means the total income (i. e. , before
   any adjustments, tax deductions or any other deductions), received by all members of the
   mortgagor’s household for those items listed in Paragraph 10-9.
4. “Minor” (24 CFR 235. 3). This term means a person under the age of 21 but shall not
   include a mortgagor or the spouse of a mortgagor.
5. “Cooperative Member” (24 CFR 235. 325). This term means a person who is a member
   of a cooperative association which operates a housing project financed with a mortgage insured
   under Sections 213 or 221 of the National Housing Act and meets the conditions set forth under
6. “Active Contract”. This term means a Section 235 assistance payment contract that is not
   currently suspended or terminated.
7. “Recertification of Family Income and Composition”. This term means the process for
determining whether a mortgagor’s household;
   a. continues to qualify for the Section 235 assistance now being received; and/or
   b. is eligible for more or less assistance than is
   currently being received.

10-3 CONTRACT FOR MONTHLY ASSISTANCE PAYMENTS UNDER THE
HOUSING AND URBAN RURAL RECOVERY ACT OF 1983. The Section 235
Revised/Recapture/10 Program provides for the following:
A. an assistance payments contract executed by the mortgagee and HUD which includes the
   “Notice To Buyer”, signed by the mortgagors; and
B. the mortgagee must submit to the local HUD Field Office having jurisdiction over the
mortgage the completed and executed contract along with the closing package at the time of
insurance endorsement. (HUD will execute the contract and return it to the mortgagee with the Mortgage Insurance Certificate.)

**10-4 CONTINUING ELIGIBILITY FOR ASSISTANCE.** Once the assistance payments contract has been executed and the mortgage insured, many of the initial eligibility requirements (such as owning other property, family size, etc.) no longer restrict the mortgagor’s continuing eligibility for assistance.

A. Requirements To Continue Receiving Assistance. In order to continue receiving assistance payments, the mortgagor must meet all four of the following conditions:

1. Owner-occupancy Continues. Must be a mortgagor (as described in 24 CFR 235.315) or a cooperative member (as described in 24 CFR 235.325) and live in the mortgaged property;

   a. Co-mortgagors. Where there are co-mortgagors, this requirement will be satisfied as long as one co-mortgagor lives in the mortgaged property.

   b. Absentee Occupant. If a mortgagor is away from the mortgaged property for a period up to one year this requirement will be satisfied if the absence is due to circumstances beyond his/her control and the mortgagor has taken no action which would indicate this property is no longer his/her primary residence. Each case must be decided on its own merit as to whether the circumstances meet the occupancy requirement. If additional guidance is needed, the HUD Field Office having jurisdiction over the mortgaged property should be contacted. Examples of an “absentee occupant” may include, but not necessarily be limited to, a member of the armed forces, and/or a hospitalized mortgagor.

   NOTE: Assistance payments must be suspended where the mortgagor:

   1. actually collects rent for the mortgaged property;

   2. vacates the mortgaged property for any reason other than for a temporary absence;

   3. offers the property for rent or sale;

   4. fails to make the mortgage payments after vacating the property;

   5. rents another property which the mortgagor is occupying for any reason other than for a temporary absence (as described in (1) - (4) above from his mortgaged property);

   6. purchases and occupies another property (mortgagor or co-mortgagor)

   c. Appointed Trustee/Guardian. In the event of the death of the mortgagor and a trustee/guardian was appointed as the only survivors were minors, this requirement may be satisfied if the appointed trustee/guardian lives in the mortgaged property with the surviving minors.

2. Contract Remains Active. Must be under an assistance payments contract that has not been suspended or terminated.

3. Meets Income Requirements. Mortgagor has insufficient income to make the full monthly mortgage payment with 20 or 28 percent of income depending on the firm commitment date of the mortgage; and

   NOTE: The 20 percent calculation applies to mortgages insured pursuant to a firm commitment issued on or before October 26, 1984. The 28 percent calculation applies to mortgages insured pursuant to a firm commitment issued on or after October 27, 1984.

4. Recertifies As Required. Recertifies as to occupancy, employment, family composition, and income at least annually and at such other times as required by HUD regulations 24 CFR 235.350.
B. Basis Of Assistance Calculation. If the four conditions cited in Paragraph A above are met, only the amount of assistance remains to be calculated. This calculation is based on periodic recertifications of income, family composition, occupancy and employment as discussed in Paragraph 10-5.

C. Disclosure And Verification Of Social Security Number (SSN). The disclosure and verification of the SSN is an explicit condition of continued eligibility for Section 235 assistance. All mortgagors (and members of their households six years of age and older) are required to disclose and verify complete and accurate SSNs in connection with any recertification.

D. Verification Of The SSN Is A One-time Requirement. If a mortgagor provides the mortgagee with documentation to verify the SSN at the time of an annual recertification (October 1990), it is not necessary to provide the documentation to verify the SSN for any subsequent recertifications. However, disclosure of the SSN must be provided at the time of each recertification. Mortgagees must advise mortgagors of the requirements in writing.

E. Documentation Requirements.
   1. Documentation is required for each SSN disclosed. To document the SSN, all individuals should furnish a copy of a valid Social Security Card (SSC) issued by the Social Security Administration of the Department of Health and Human Services. (The SSN has nine digits separated by hyphens as follows: 000-00-0000).
   2. In those cases where the individual is unable to provide a copy of a valid SSC, mortgagees may accept copies of any two of the following documents which would contain the SSN and the individual’s identity:
      a. A drivers license.
      b. An identification card issued by a Federal, state or local agency.
      c. An identification card issued by an employer or trade union.
      d. Earnings statements or payroll stubs.
      e. Bank statements or personal checks.
      f. Internal Revenue Service (IRS) Form 1099.
      g. Unemployment benefit letter.
      h. Retirement benefit letter.
      i. Life insurance policies.
      j. Court records: such as marriage and divorce judgments or bankruptcy records.
      k. Other documents that the mortgagee determines adequate evidence of a valid SSN.

F. Individuals who have applied for legalization under the Immigration Reform and Control Act of 1986 (IRCA) are an exception to the documentation requirements stated above.
   1. These individuals have a SSN to disclose but will not have the copy of the SSC as documentation. Acceptable documentation from those individuals is a letter from the Immigration and Naturalization Service (INS) assigning them the SSN.
   2. IRCA applicants generally applied for a SSC at the time they applied for amnesty. The Social Security Administration assigned these individuals a SSN and issued a SSC. However, this card was forwarded to INS and was placed in the applicant’s file. INS sends a letter to IRCA applicants informing them that a SSN has been assigned and they may use it until they are granted temporary lawful resident status.

G. Unacceptable Documentation. Mortgagees may not accept documents that:
1. Are produced or completed by individuals, such as business cards, self completed wallet identification cards, or other store purchased cards. (People often purchase a plastic or metal SSC from companies or mail order firms.)
2. Have little or no importance, such as club membership or library cards.
3. Mortgagees have the discretion to include similar documents in this category.

H. Invalid Or False Documents. A mortgagee may reject documents that are invalid or false. To be considered invalid or false, the document must fall under one of the following categories:

1. Invalid Social Security Numbers - Some individuals use invalid numbers taken from sample cards put in new wallets or from similar advertising.
2. False Documents - False Identification documents can be either counterfeit, altered, or impostors:
   a. Counterfeit - A forgery of a genuine document or a copy of a document which may appear authentic but is not legally issued.
   b. Altered - A genuine document that has had some identification changed to match the bearer. Most often the name, photograph, address or age and physical description are changed on altered documents.
   c. Imposter - A genuine document obtained under false pretenses, or a blank genuine document stolen from the issuing agency.

I. Procedures For Rejecting SSNs Or Documentation. When a mortgagee suspects that it has been given an invalid or false document to evidence the SSN, it should notify the homeowner and require an explanation or additional proof of the SSN. If the additional documentation is questionable, the mortgagee may require the SSC be provided, or a duplicate card obtained if the original is not available. If the additional documentation does not satisfy the mortgagee that it is valid or genuine, the following actions must be taken:

1. The assistance payments contract must be suspended effective the 1st day of the first month after receipt of the additional documentation.
2. The assistance payments contract cannot be reinstated until the validity of the SSN can be verified. The mortgagee must advise the homeowner in writing of the action.
3. If the validity of the SSN is verified, the assistance payments contract is to be reinstated effective the 1st day of the month following receipt of the documentation.

J. Certifications.

1. If individuals disclose their SSN, but are unable to meet the verification requirement, a written certification must be executed by the individual to this effect. The certification should state the individual’s name, SSN, and that he/she is unable to submit the documentation. The certification must be signed, and dated by each individual who does not have the documentation. If the individual is under 18 years of age, the certification must be executed by his/her parent or guardian.
2. The individual then has 60 days from the date of certification to obtain necessary documentation to verify the SSN disclosed. If an individual is at least 62 years of age, the mortgagee may at its discretion, extend the period up to an additional 60 days (or 120 days after certification).
3. The mortgagee may refer the homeowner to the local Social Security Office so that he/she may complete and submit Form SS-5, “Application for Social Security Card,” to request a duplicate Social Security Card.
4. If any individual has not been assigned a SSN, a certification executed by that individual is required. The certification should state the individual’s name, and that he/she has not been assigned a SSN. The individual should then date and sign the certification. If the individual is under 18 years of age, the certification must be executed by/their parent or guardian. This certification is required annually. No further action is needed. A mortgagee cannot require an individual to apply for a SSN.

K. Criminal Violations.

1. Since the SSN was considered an administrative tool for many years, it was not considered necessary to have a penalty provision covering the fraudulent application for or use of a SSN. However, as time passed and the SSN came into broader use, the need to protect it became more apparent. Penalty provisions were added to the Social Security Act and are contained in 42 U.S.C. 408(f), (g) or (h). Violations of these statutes include:
   a. Providing false information to obtain a SSN.
   b. Using a SSN based on false information to get a federally financed benefit.
   c. Using someone else’s SSN.
   d. Misusing a SSN for any reason.
   e. Making, possessing, buying, or selling counterfeit Social Security cards.

2. If documentation obtained indicates that the homeowner knowingly intended to deceive the mortgagee, referral of the information should be forwarded to the Office of Inspector General for the Department of Health and Human Services (DHHS) may be contacted by toll free hotline: 1-800-368-5779 or by contacting a Regional Inspector General for investigation.

10-5 RECERTIFICATION OF INCOME, FAMILY COMPOSITION, OCCUPANCY AND EMPLOYMENT.

A. Recertification Requirements. In an effort to fully apprise mortgagors of their responsibility and the importance of reporting all required information timely, mortgagees must notify mortgagors of the requirement not only at the time of the annual recertification but also at an additionally specified time within 30 days after the end of each calendar year. It is suggested that this be accomplished at the same time the mortgagor is provided a statement of the interest paid and the taxes disbursed from the escrow account during the preceding year.

1. Requirement For All Mortgages (24 CFR 235. 350 and 235. 355). Mortgagees must secure recertifications of gross income, family composition, occupancy, and employment at least annually and as otherwise required by HUD regulations to ensure that the amount of assistance paid on behalf of the mortgagor is that which is authorized by statute.


3. Requirement For Mortgages Insured On Or After January 5, 1976. The annual recertification must contain a statement of the total gross income (i.e., before adjustments and/or deductions) reported for all adult family members living in the household as shown on their last federal income tax returns.

NOTE: If the “total” gross income reported on their last federal income tax returns is “individually or collectively” more than 25 percent above the income reported on the
recertification, the mortgagee must require a written explanation of the difference in income from the mortgagor.

B. Recertification Form To Be Used. The only acceptable form on which mortgagors and their families may recertify is the Form HUD-93101, Recertification of Family Income and Composition, Section 235(b). The recertification must include the following:
1. the signature of at least one mortgagor;
2. the date of the signatures;
3. current income, total income for last 12 months and expected income for next 12 months of all family members;
4. names and addresses of sources of income for verification purposes; and
5. Social Security Numbers of all family members 6 years of age and older.

10-6 WHEN RECERTIFICATIONS ARE REQUIRED (24 CFR 235.350).
A. Annual Recertifications.
1. Date Recertification Must Be Performed. Except where the mortgagor has been recertified within 90 days prior to the anniversary (or arbitrary anniversary) date, the mortgagee must recertify the mortgagor at least annually on either:
   a. the anniversary date of the first mortgage payment due under the mortgage; or
   b. an arbitrary anniversary date established by the mortgagee for its entire portfolio of Section 235 mortgages.
2. Events Which Permit Recertification Anniversary Dates To Be Changed. Once established, annual and arbitrary anniversary dates are to remain constant except when:
   a. the mortgage is recast;
   b. the mortgage is transferred to a new mortgagee or servicer; and/or
   c. prior written approval has been obtained from the local HUD Field Office where the mortgagee is located with a copy of such approval must be maintained in each individual case file. A copy must also be provided as an attachment to the Form HUD-93102 assistance payment request form notifying HUD Headquarters Office of Finance and Accounting’s Subsidy Accounting Branch.

NOTE: When any of the above events occur, the mortgagee or servicer automatically has the option of:
(1) using the anniversary date of the first mortgage payment due under the mortgage;
(2) using the same arbitrary anniversary date (assuming an arbitrary date was being used) as the transferring mortgagee or servicer; or
(3) selecting a different arbitrary anniversary date.
B. Intermittent Recertifications.
1. For Mortgages Insured Before January 5, 1976. Recertifications must be done within 30 days of the effective date of any “addition to” the adult family’s “source of income”. An “additional” source of income” may be due to, but not necessarily limited to, the following:
a family member (other than a mortgagor) may have reached the age of 21. If this family
member was a wage earner, this would require that his/her wages now be taken into
consideration when computing assistance payments;
b. an adult who did not work previously may have obtained employment;
c. an adult who had a job may have elected to get an additional part-time job; and/or
d. a family wage earner may have gotten married.
e. an adult wage earner joins the family through marriage.

NOTE: Unless the increase was due to a change in source, the mortgagor needs only to recertify
at the next anniversary—at which time the increase must be reported to the mortgagee.

2. For Mortgages Insured On Or After January 5, 1976.
Recertification is required within 30 days of the date when the total gross income increases by
$50 or more per month, regardless of whether the source changes. It is the mortgagor’s
responsibility for providing this information to the mortgagee. Mortgagors must be made aware
that their failure to advise the mortgagee of an increase in income within the 30-day time frame
could result in that mortgagor being required to repay a significant amount of overpaid assistance
(24 CFR 235. 350(c)).

C. Recertifications At The Direction Of The Secretary Of HUD. The Secretary of HUD,
and/or his designee, may require recertification any time there is reason to believe recertification
is warranted (24 CFR 235. 350(a)(3)).

D. Optional Recertifications At The Request Of The Mortgagor (24 CFR
235. 355). The mortgagor has the option of requesting that the mortgagee accept a recertification
any time there is a reduction (of any amount) in the adult family income. Should the change not
be made within the 30-day time frame due to the mortgagor’s failure to notify the mortgagee,
any increase in assistance resulting from income decrease will be made effective the first day of
the month following the date the recertification is received by the mortgagee and not

1. Acceptable Reasons For Performing Optional Recertifications.
The mortgagor may request an optional recertification due to, but not necessarily limited to, any
of the following reasons:
a. an adult wage earner’s death;
b. an adult wage earner moving out of the property;
c. an adult wage earner becoming unemployed; and/or
d. an adult wage earner’s loss and/or reduction of overtime or salary.

NOTE: If the mortgagor is already receiving the maximum assistance allowed based on income
(i.e., maximum allowed under Formula Two), the recertification requesting that assistance be
increased need not be processed. However, the mortgagor must be advised, in writing, of the
reason for the mortgagee’s inability to increase the assistance payment.

2. Time Frame For Making The Request.
a. In the case of self-employed adult family members, the reduction must have continued
for at least 90 days prior to the mortgagor’s request for recertification. The best information
available must be used to ensure that the reduced income has been in effect for 90 days.
Assistance must not be based on the unsupported word of the mortgagor.
b. For mortgagors NOT self-employed, the reduction or loss of income must reduce the
family income to less than the income that was used in computing the most recent assistance.
3. Time Frame for Mortgagee To Process Optional Recertification. The mortgagee must request on HUD Form 93101-A to make any assistance increase effective the first day of the month following the month the mortgagor’s recertification is received.

10-7 ANNUAL RECERTIFICATION OF MORTGAGORS.
A. Time Frame For Requesting Recertifications. Unless the assistance payments contract has been suspended or terminated, annual recertifications must be secured by the mortgagee:
1. no earlier than 60 days before and no later than 30 days after the mortgage (or arbitrary) anniversary date; and
2. the HUD-93101-A must be received by HUD Headquarters Office of Finance and Accounting’s (OFA’s) Subsidy Accounting Branch no later than 45 days after the mortgage anniversary (or arbitrary anniversary) date.
NOTE: The Subsidy Accounting Branch (SAB) will identify as suspended the subsidy payments on cases when required annual recertifications are not received by the 45th day after the anniversary date. SAB will notify mortgagees by letter that an account has been identified as suspended. When subsidy is identified as suspended by SAB due to untimely recertification, it will not be paid retroactively unless the HUD-93114 request for reinstatement and the HUD-93101-A are accompanied by a statement from the mortgagee. The statement must include the reason for mortgagee’s failure to adhere to recertification requirements. Assistance payments identified as suspended by SAB shall not be retroactively reinstated because a mortgagor failed to properly respond to a timely request from the mortgagee for recertification. For examples of the effective dates of payment changes resultant from recertifications, see Paragraph 10-15C.

B. “Reasonable Effort” Action Required Of Mortgagee. A reasonable effort must be made by the mortgagee to comply with the time frames shown in Paragraph 10-7A. In order for the mortgagee’s actions to meet the “reasonable effort” requirement, the mortgagee’s actions must include, but not necessarily be limited to, the following:
1. sending a written notice to the mortgagor, early enough to result in obtaining recertification no earlier than 60 days before and no later than 30 days after the mortgage anniversary (or arbitrary anniversary) date, which:
   a. advises the mortgagor of the annual recertification requirement;
   b. transmits a Form HUD-93101 that must be filled out and returned to the mortgagee;
   c. advises the mortgagor that failure to return the completed HUD-93101 within the required time frame will result in suspension of subsidy payments;
   d. advises the mortgagee that assistance payments will not be made retroactively and that the mortgagor will be responsible for making the full mortgage payment during the period of suspension;
   e. advises the mortgagor that the reinstatement of suspended subsidy payments will not be effective until the first payment month which occurs after 30 days from the date of the mortgagee’s receipt of HUD-93101 from the mortgagor; and
   f. provides a telephone number and contact name to be used by the mortgagor to obtain responses to recertification questions.
2. providing special help (whether requested or not) to
mortgagors who are unable to recertify due to lack of education, language barrier, physical or emotional impairments.

NOTE: Mortgagees are expected to assist mortgagors in completing forms and/or advising relatives or community assistance agencies when mortgagors need assistance in filling out forms.

10-8 MORTGAGOR FAILS TO RECERTIFY WITHIN TIME FRAME (24 CFR 235.375(b)(4)). If the mortgagor fails to respond to the mortgagee’s request for recertification within the required time frame, the mortgagee is required to request via Form HUD-93114 that the HUD Headquarters OFA’s Subsidy Accounting Branch suspend assistance payments effective the first month after the date that the recertification was required.

NOTE: The Subsidy Accounting Branch will identify the case as suspended and will not pay assistance payments when a recertification is due and neither a HUD-93101-A nor a HUD-93114 is received from the mortgagor by the 45th day after the anniversary date.

A. Mortgagor Recertifies After Suspension. If the recertification is received by the mortgagee after assistance payments have been suspended, the mortgagee must submit Form HUD-93114, together with HUD-93101-A, requesting that the assistance payments be reinstated as an adjustment transaction Code 2 on the next regular month’s billing Forms HUD-93102 and HUD-300.

NOTE: The billing forms and all adjustment transaction documents (i.e., Forms HUD-93114, HUD-93101-A, HUD-93102 and HUD-300) should be submitted as one package to the Subsidy Accounting Branch for processing. The reason for the adjustment in Column 3 on Form HUD-300 should be noted as “Late mortgagor recertification”. The reinstatement will be effective on the first payment month which occurs after the date of the mortgagee’s receipt of Form HUD-93101 from the mortgagor.

NOTE: No assistance will be paid for the period during which a recertification should have been received (i.e., 30 days after it was requested) and the date it was actually received.

B. Contract Suspended Due To Mortgagee’s Failure To Meet “Reasonable Effort” Requirement. In situations where HUD determines that the action taken by the mortgagee when contacting the mortgagor with regard to the recertification fails to meet the “reasonable effort” requirement (as stated in Paragraph 10-7B) and the assistance was subsequently suspended, the mortgagee must go back to that mortgagor and allow that mortgagor to recertify as long as he/she recertifies within 30 days of this second written request. The mortgagee must:

1. secure recertification and complete verification;

NOTE: If more than one recertification was missed, for each missed recertification the mortgagee must reconstruct family income as accurately as possible for each anniversary date.

2. make any resulting change in assistance effective retroactive to the period for each recertification in question; and

3. if the recertification results in overpaid assistance, careful consideration must be given in order to choose a method which will allow for the recovery of overpaid assistance that may have accumulated without creating an undue hardship on the mortgagor. However, the mortgagee must immediately refund the total overpaid assistance amount to HUD. The overpaid amount should be included as an adjustment transaction on the next regular month’s billing which should be accompanied by applicable Forms HUD-93114 (requesting reinstatement) and HUD-93101-A
(recertifying income). The periods of overpayment (i.e., month and year) must be included in Column 3 of Form HUD-300. The reason for adjustment should be noted as “Late Recertification Request”.

NOTE: When assistance has been suspended and a request for reinstatement is retroactive, the current monthly billing amount should be treated as a Code 1 transaction on Form HUD-300. The retroactive billing amount should be treated as a Code 2 adjustment transaction on Form HUD-300.

Both the reason for adjustment (i.e., late mortgagor recertification, recertification request; suspended in error, etc.) and the beginning and ending effective period (month and year) must be included in Column 3 of Form HUD-300. Failure to provide this information or failure to attach the required Forms HUD 93101-A and HUD-93114, as appropriate, will result in non-payment of the adjustment amount.

Disallowed adjustment amounts due to lack of documentation must be included on the next regular month’s billing. The HUD Headquarters OFA’s Subsidy Accounting Branch will process only one Form HUD-93102 for each billing period.

10-9 DETERMINING INCOME.

A. Gross Annual Income (24 CFR 235.5(d)). Assistance is based on gross income which is made up of the total income (prior to any adjustments, taxes or other deductions) received by all members of the mortgagor’s household.

NOTE: Members of the mortgagor’s “family or household” are considered to be all persons living in the mortgaged property who are related to the mortgagor by blood, marriage or operation of law.

1. Income Sources Included. For the purposes of annual or other required recertifications which project income, the following sources must be included:

   a. wages, child support, alimony, and rental income;
   b. Social Security or welfare benefits;
   c. retirement benefits, military and veterans’ usability benefits;
   d. unemployment benefits;
   e. interest and dividend payments;
   f. lottery winnings paid over extended periods; and
   g. insurance benefits paid on a fixed schedule.

2. Income Sources Excluded. Income from the following sources must NOT be included:

   a. lump sum insurance benefits;
   b. lump sum winnings from a lottery;
   c. hospital or other medical insurance benefits;
   d. bonuses and/or overtime (if they DO NOT represent a pattern of annual payments over a period of time);
   e. food stamps;
   f. scholarships; or
   g. any unusual income such as payments made to Vietnam Veterans from the Agent Orange Settlement Fund.

NOTE: The Agent Orange Compensation Exclusion Act (Public Law 101-201) requires that none of the payments made to Vietnam Veterans from the Agent Orange Settlement Fund be
considered income for the purpose of determining eligibility for or the amount of benefits under
any Federal or federally assisted program. This requirement must be adhered to when processing
Section 235 Annual or other required Recertifications of Family Income and Composition.
h. any temporary income such as income of a wage earner from temporary employment that
has been discontinued at the time recertification is taking place.
B. Income Requiring Special Consideration. The mortgagee is to use the mortgagor’s
verified current income or the mortgagor’s stated “expected income”, WHICHEVER IS
HIGHER.
“Expected income” is different from income received over the past 12 months (or year-to-date
income) in that if there has been a recent increase in the mortgagor’s (and/or family member’s)
hourly wage or salary, that new hourly rate or salary would serve as the basis for projecting the
“expected income” for the next 12-month period.
1. Overtime Pay. Overtime pay must be included in the total income if the employer
verifies that overtime is currently being paid on a regular basis regardless of whether the
employee states (or fails to state) at the time of verification that the overtime is expected to
continue in the future. If there is a continuing record of overtime work, the only time the
overtime income is to be excluded is when the employer verifies that overtime will be
discontinued.
2. Self-Employment. Include in gross income all income listed on Internal Revenue
Service’s (IRS) Form 1040. When calculating the income of self-employed mortgagors, the
deductions set out in Schedule C, Profit (or Loss) from Business or Profession, must be
recalculated for HUD
purposes. Salary or wage distributions for the mortgagor or co-mortgagor, depletion or
depreciation) are not deducted from the gross business income for HUD purposes.
NOTE: For example, Schedule C is not the only form where self-employment income is claimed,
farmers may have a Schedule F instead of a Schedule C. All sources of self-employment income
must be included.
   a. Recalculate Business Income On IRS Form 1040. Mortgagees must recalculate the
business income (Item 12 on IRS’ Form 1040). If the recalculated income shows a loss, that loss
cannot be used to offset other forms of income reported on Items 7 through 22 on IRS Form
1040.
   b. Item 12 on the mortgagor’s IRS Form 1040 may reflect a negative amount in some cases.
However, when the mortgagee recalculates the Schedule C as prescribed in Paragraph 2a above,
it could result in a positive amount to be included in income. Elimination of the deductions for
depletion and depreciation may, from HUD’s perspective, result in a business profit.
3. Special-Purpose Payments. These are payments made to the mortgagor’s household that
would be discontinued if not spent for a specific purpose. Payments which are intended to
defray specific expenses of an unusual nature and which are expended solely for those expenses
should not be considered as income. Examples include, but are not necessarily limited to, the
following:
   a. Medical Expenses. Funds provided by a charitable organization to defray medical
expenses, to the extent to which they are actually spent to meet those expenses.
FHA Single Family Housing Policy Handbook
II. Title II Insured Housing Programs Forward Mortgages
B. Servicing
Appendix I – Programs and Products
K. Section 235 Mortgages

b. Foster Children. Payments for the care of foster children who are not otherwise related to the mortgagor’s household by blood, marriage, or operation of law.

NOTE: Foster children are not considered members of the family. Therefore, no $300 adjustments to income are to be made because of their presence.

c. VA Educational Benefits and/or Scholarships. VA educational benefits and/or the proceeds of scholarships are not considered income to the extent the benefits or proceeds are actually used for educational expenses (i.e., tuition, books, lab fees, etc.). Any excess income after deducting actual educational expenses must be included as income.

NOTE: Costs of transportation to and from school or for cost of housing for living away from home to attend school are not considered educational expenses.

d. Payments In Kind. Items such as food stamps, meals, clothing, or transportation provided by the employer is not considered as income if used for that expressed purpose. However, cash reimbursement for any of these items is considered as income to the extent it continues when not spent to defray a specific expense.

e. Insurance Benefits.

(1) Health/Accident/Disability Insurance.

(a) Premiums Paid By Mortgagor. Benefits received from policies where the mortgagor is both the insured and the beneficiary are not to be considered income if the mortgagor paid the premiums.

(b) Premiums Not Paid By Mortgagor. If these premiums were paid by someone outside the mortgagor’s household (such as an employer), the benefits would be considered as income.

(2) Other Types of Insurance. The benefits of other type insurance policies would be considered as income if the benefits are paid in two or more installments unless they meet the test of special purpose payments as described in Paragraph 10-9B3 above.

Regardless of the type or reason for payment, insurance benefits paid in a lump sum are not to be considered income. However, if the mortgagor chose to invest any or all of the money from this lump sum payment, all interest (or other gain) from this investment would be considered as income.

f. Earnings of Minors. Income of all family members within the mortgagor’s household must be included in the family’s total gross income which is used as a base for computing the assistance. All income of all members of the family is included in gross family income. In arriving at the family’s adjusted income, five percent of this total is subtracted before subtracting the earnings of minors. Note that only the earnings of minors are subtracted. Income of minors from sources other than earnings is not subtracted.

For example, income to a minor from a trust or an insurance policy is not earnings and is not subtracted. It is thus immaterial whether income other than earnings is paid to a minor or to an adult family member for the benefit of the minor. In neither case would it be deducted in arriving at adjusted income.

g. Military Pay and Allowances. All cash payments to a member of the armed forces are considered as income, regardless of the reason for the payment, unless the payment is made only once and for a special purpose, such as a lump sum re-enlistment bonus. Many military personnel may exercise a degree of choice in some areas of compensation. For example, they may choose between eating in a government cafeteria without charge or receiving an allowance...
for rations in cash and paying for any meals consumed in the cafeteria. If the allowance is
received in cash, it is income. Otherwise, it is not.
h. Reimbursement for Expenses. If the family member’s employment requires spending
considerable time away from home on a regular basis and the employer provides reimbursement
for the unusual living expenses incurred as a result, the reimbursement is not normally
considered to be income.
Exceptions to this rule:
(1) If the reimbursement is paid for periods other than when the employee is actually away from
home, the entire reimbursement is considered as income regardless of whether the employee
accounts to the employer for actual expenses and the reimbursement is fixed on a daily basis (or
some other standard) and is inadequate to cover all normal living expenses; and
(2) if the employee accounts to the employer for expenses, and the expenses equal or exceed the
reimbursement, the reimbursement is not considered income. However, if the reimbursement
exceeds the expenses, the excess reimbursement is considered income.
NOTE: Where expenses exceed the reimbursement, the amount not covered by the
reimbursement cannot be deducted from the family’s gross annual income.
10-10 VERIFYING INCOME. To calculate assistance payments, the mortgagor’s verified
current income, or the reported expected income, WHICHER IS HIGHER, must be used.
The mortgagor’s option to recertify is his/her only protection when there is a loss of income.
When mortgagees fail to use the highest income reported, overpaid assistance results.
A. Third-party Verification Required. Third-party verification of the mortgagor’s
statements, similar to that required when a mortgage is originated, is required at the time of each
recertification.
EXCEPTION: Third-party verifications are not required for self-employed persons.
B. Verification Not Available. Where third-party verification cannot be obtained and/or the
mortgagor’s statements cannot be reconciled with the verification, the local HUD Field Office
having jurisdiction over the mortgaged property should be contacted for assistance in
establishing the income.
C. Unacceptable Forms Of Verification. Examples of unacceptable forms of verification
include, but are not necessarily limited to, the following:
1. Federal income tax returns or Forms W-2’s (withholding tax forms), except for self-
employed persons and where HUD has reviewed the case and has established that this would be
the best information available;
2. where verifications have passed through the hands of the mortgagor and/or the person
whose income is being verified; and/or
3. checks and/or pay stubs which show only the net amount of the check.
D. Acceptable Forms Of Verification. The most difficult part of income verification is
determining that all sources of earned income have been reported by all members of the
mortgagor’s household.
1. Listed below, ranked in the order of preference, are acceptable forms of verification for
earned income.
a. Pay Stubs and Checks. If these show gross income as well as net, these documents are
considered to be the most reliable source of accurate information concerning recent income.
(1) Documentation for Preceding Six months Is To Be Requested. The most recent information available is to be used for recertifications. Salary information requested should include at least any pay stubs and/or copies of check(s) received by any household member just prior to the mortgagee’s request as well as any checks or income received within at least the last six-month period.

(2) Each Source of Income Must be Documented. Care should be taken to assure that the mortgagor provides information with respect to each source of income. If a source is missing, one of the other forms of verification should be used with respect to that source.

b. HUD Form 92004-G Request for Verification of Employment. This form of verification is acceptable (or similar forms designed by the mortgagee to elicit the same information) only if it is delivered directly to and from the employer without passing through the hands of the mortgagor and/or the employee whose salary is being verified.

NOTE: If the HUD form is used, it should be modified to add, in the remarks section, a request for information about anticipated wage increases.

c. Telephone Verification. While some employers may be reluctant to provide income information by telephone, they will usually verify that the mortgagor is or is not employed with that company. In using the telephone:

(1) Contact Designated Personnel. It should be established by the mortgagor that the person spoken to is either:

(a) the mortgagor’s supervisor; or

(b) an employee of that company who has been authorized by that company to give out employment verifications.

(2) Maintain Mortgagor’s Privacy. The detailed reason for the call (i.e., to determine if the employee remains eligible for Sections 235 subsidy) should not be disclosed to any parties other than those described in the preceding paragraph.

(3) Document Telephone Call. Each telephone call should be fully documented as follows:

(a) the date;

(b) the time;

(c) the parties of the conversation; and

(d) the information provided by the employer.

d. Use of Standard Benefit Scales. Some localities have established that a family with a given composition receiving public assistance or unemployment compensation as its sole source of income must receive assistance in a set amount. NOTE: Where this is the case, the income taken from the current schedule of benefits established by that source may be accepted as the family’s income without individual verification of the benefits.

e. Use of Public Housing Authority’s Standard Minimum Income Scales. Some Public Housing Authorities have established schedules of minimum incomes for various occupations in their areas, especially those with fluctuating, seasonal, and irregular patterns. These schedules are based on experience indicating that workers in each of the covered occupations can be expected to earn at least a minimum each year under normal working conditions.

(1) Income Reported At Or Above Minimum Scale. If the mortgagor has stated an income at or above the minimum found in these tables, the mortgagor’s statement may be accepted without further verification.
Income Reported At Less Than Minimum Scale. Where the mortgagor can provide convincing evidence that a lower income is accurate, the lower figure may be used.

2. Income from Self-Employment. As noted in Paragraph 10-9 with respect to self-employment, the income of self-employed persons must often be adjusted to avoid reducing it for non-cash expenditures such as depletion and depreciation. Supporting documentation (such as statements showing deposits consistent with claimed income) should be obtained from self-employed mortgagors.

a. Audited Profit and Loss Statements. A copy of the latest audited Profit and Loss Statement may be requested from the mortgagor.

NOTE: Due to the expense involved, mortgagors are not to be required to obtain an audited Profit and Loss Statement for the sole purpose of the mortgagee using it for income verification to determine Section 235 subsidy. However, should a recent audited Profit and Loss Statement exist for other purposes, the mortgagee may require that a copy be provided for income verification.

b. Unaudited Profit and Loss Statements. These are acceptable only if prepared by someone other than the mortgagor. Even then, they are of questionable validity as they are based solely on information provided to the preparer by the mortgagor. Any apparent discrepancy should be followed up thoroughly.

c. Financial Statements. A financial statement is a picture of the financial condition of the business at a specific time. It must be noted that a financial statement does not provide information about the income of the mortgagor, but only serves as a basis for determining that the business can afford to pay the mortgagor what is claimed as earned income.

NOTE: When the self-employed mortgagor is a principal owner of a corporation, that person’s income is generally a combination of salary and dividends on investment in the corporation. In these situations, the corporation’s undistributed earnings should also be considered as income of the mortgagor to the extent of that person’s ownership.

3. Unearned Income. Income from sources other than employment or self-employment must also be verified, and there are probably as many ways to do this as there are different sources of income. It is left to mortgagees to determine the best source of information in each case.

E. Verification Not Required. Certain types of income need not be verified.

1. Minors. Incomes of minors (persons living in the household who are under the age of 21) need not be verified. Only the income of “adult” members of the family need be verified. “Adult” for this purpose is any mortgagor and spouse of any mortgagor (regardless of age) and any other person related to any mortgagor by blood, marriage, or operation of law who occupies the mortgaged property and is 21 years old or older.

2. Latest Verification Performed Within Last Six Months. On mortgages insured prior to January 5, 1976, income which has been verified within the six months preceding the mortgagee’s receipt of the signed Form HUD-93101 need not be verified if:

a. the family members report no change in employers; and

b. the income reported is either the same as that verified earlier or reflects a change which was expected and/or verified as a part of the previous verification.

3. Disqualifying Income. If either the current or expected income as reported by the mortgagor is adequate to enable the mortgagor to make the full monthly payment with 20 or 28
percent of income (depending on when the mortgage was insured), no further verification is necessary before suspending the assistance payments contract.

10-11 FAMILY COMPOSITION. Family composition need not be verified, but, all changes in the status of adult and family members must be questioned.

A. Separations. Where a mortgagor has left the property due to a separation, the remaining mortgagor may certify as to the composition of the remaining portion of the household.

B. Death. Normally, if there is no owner-mortgagor occupying the property, assistance cannot be paid. In the event of the death of one or more mortgagors, there could be a question as to both the title to the property and the mortgage obligation. The status may be even more uncertain if the only survivors are minor children.

1. Obtaining Clear Title/Disposing of Property. Where the only survivors are minor children, it may be necessary to initiate court proceedings in order to have a guardian appointed for the purpose of clearing and/or disposing of the title of the property.

2. Commencement of Assistance Payments. In the event of a death or separation leaving no owner-mortgagor, the mortgagee may begin billing for assistance immediately as though there had been an assumption at the time of the death or separation, provided the mortgagee can identify an individual who meets all of the following conditions:

a. is a member of the surviving family (even though he/or she may not have qualified as a “family” member for assistance purposes earlier);

b. will probably become the holder of title (either in his/her own name or in trust for one or more of the survivors);

c. will assume the mortgage obligation in the same capacity;

d. will occupy the mortgaged property with the survivors; and

e. will qualify for assistance within the limits prescribed for initial eligibility (see Paragraph 10-22).

3. Establishing Eligibility. It must be recognized that to determine who will most likely inherit or be appointed as a guardian or trustee on behalf of the survivors before the estate is settled can only be based on assumptions. Once the mortgagee can reasonably determine who that individual will be and whether the conditions in Paragraph 10-11B2 have been met, eligibility must be established.

NOTE: Establishing eligibility need not be delayed until the disposition of title has been completed and the mortgage obligation is formally assumed by the new mortgagor. Should it become evident that those assumptions are incorrect, the assistance payments contract must be suspended effective with the date of death or separation and any assistance paid in the interim must be refunded to HUD.

10-12 COMPUTING ASSISTANCE (24 CFR 235.335). The maximum monthly assistance that can be paid by HUD is the lesser amount computed under two formulas, commonly referred to as “Formula One” and “Formula Two”. Instructions for these computations are given on Form HUD-93101-A under Section A and B.

A. Formula One. The “Formula One” assistance payment is the difference between the full monthly mortgage payment (i.e., principal, interest, and all escrowed items) due under the
mortgage and either 20 or 28 percent of the mortgagor’s adjusted monthly income. (See Section A and B of the Form 93101-A to determine how the assistance payment is computed. )

NOTE: The 20 percent calculation applies to mortgages pursuant to a firm commitment issued on or before October 26, 1984. The 28 percent calculation applies to mortgages insured pursuant to a firm commitment issued on or after October 27, 1984. The “Formula One” payment must be recomputed whenever there is a change in the total payment or when there is a change in the income or family composition reflected in a recertification.

B. Formula Two. The “Formula Two” assistance payment is the difference between the actual monthly payment to principal, interest, and the mortgage insurance premium (MIP) under the mortgage and the monthly payment to principal and interest (without the MIP) that the mortgagor would have to pay if the mortgage bore interest at some lower rate. Those lower rates vary, depending on when the mortgage was insured, as indicated below:

<table>
<thead>
<tr>
<th>Date of Closing Note Rate</th>
<th>Note Rate</th>
<th>Interest Rate to Compute Second Element of Formula Two</th>
<th>P&amp;I Factor per $1,000 Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/9/68-1/4/76</td>
<td>No difference</td>
<td>1.00%</td>
<td>$3.22</td>
</tr>
<tr>
<td>1/5/76-3/6/78</td>
<td>No difference</td>
<td>5.00%</td>
<td>$5.37</td>
</tr>
<tr>
<td>3/7/78-3/8/81</td>
<td>No difference</td>
<td>4.00%</td>
<td>$4.78</td>
</tr>
<tr>
<td>3/9/81 and later</td>
<td>13.50% or lower</td>
<td>4.00%</td>
<td>$4.78</td>
</tr>
<tr>
<td></td>
<td>13.75-14.00%</td>
<td>4.75%</td>
<td>$5.22</td>
</tr>
<tr>
<td></td>
<td>14.25-14.50%</td>
<td>5.50%</td>
<td>$5.68</td>
</tr>
<tr>
<td></td>
<td>15.00%</td>
<td>6.00%</td>
<td>$6.00</td>
</tr>
<tr>
<td></td>
<td>15.50%</td>
<td>6.75%</td>
<td>$6.49</td>
</tr>
<tr>
<td></td>
<td>16.00%</td>
<td>7.25%</td>
<td>$6.83</td>
</tr>
<tr>
<td></td>
<td>16.50%</td>
<td>8.0%</td>
<td>$7.34</td>
</tr>
<tr>
<td></td>
<td>17.50%</td>
<td>8.00%</td>
<td>$7.34</td>
</tr>
</tbody>
</table>

10-13 INTERIM ASSISTANCE PAYMENTS. When it is impossible to complete the verification of all or part of the family’s income at the time of the effective date of a change in the assistance payment, the assistance payment should be temporarily adjusted, if appropriate, based upon information provided by the mortgagor on Form HUD-93101 until all income can be verified or until the local HUD Field Office makes a decision as to the amount of assistance to be paid based on available documentation.

A. Basis For Computing Interim Assistance Payments. Interim changes in assistance payments should be based on the highest family income figure which can be developed from any source (or sources) until the mortgagor’s family income can be verified or a decision is made by the local HUD Field Office.

B. Affect On Payments. Interim changes in assistance payments should:

1. not result in overpayment of subsidy unless the mortgagor understates income;
2. result in the Formula One assistance (after verification) being equal to or greater than the interim adjustment; and
3. not affect Formula Two calculations as the Formula Two are not income related.
C. HUD Assistance Requested. Whenever acceptable verifications cannot be obtained, the local HUD Field Office should be asked to make a decision as to the total family income to be used to determine the amount of assistance to be paid on behalf of the mortgagor.

D. Documentation Needed. Requests to local HUD Field Offices for assistance in determining correct assistance should include:
1. Form HUD-93101, Recertification of Family Income and Composition, Section 235(b);
2. all income verifications received to date that pertain to this recertification, including summaries of any received verbally;
3. copies of any correspondence related to the recertification or verification of income.
4. a summary of any attempted verifications or reconciliation of differences may not have been made clear by the basic documentation; explain the problem encountered; and
5. the names, addresses and telephone numbers of any income source identified by or for any family member.

10-14 FIRST MONTHLY ASSISTANCE PAYMENT. Where mortgage closings do not take place on the first day of a month, the first assistance payment on a new mortgage will normally be smaller or larger than subsequent assistance payments (depending on how interest for the first partial month is collected from the mortgagor).

If the interest is collected at closing or as a separate payment of interest only on the first of the month following closing, the initial assistance payment will be smaller. If the interest is collected as a part of the first full monthly installment, both that payment and the assistance payment will be larger.

In calculating this first assistance payment, the mortgagee’s basic calculations are the same. Both “Formula One” and “Formula Two” assistance payments are to be calculated, but the mortgagor’s income and the full monthly payment used in “Formula One” and the monthly payments to principal, interest and MIP on the actual mortgage and to principal and interest on a mortgage at the appropriate interest rate used in “Formula Two” must be adjusted to reflect the number of days for which interest was actually collected.

10-15 ASSISTANCE PAYMENTS ADJUSTMENTS (24 CFR 235. 360). Most adjustments take place as a result of changes in income or family composition reflected in a recertification or due to an increase in the full monthly payment required by the mortgage.

A. Adjustments. Assistance payment adjustments will be made either retroactively or prospectively as described below.

1. Retroactively. Assistance payments may be adjusted retroactively (i.e., adjusted back to the date the change should have taken effect). Payments may be adjusted retroactively under the following circumstances:
   a. to correct errors or to include previously unreported income (i.e., $50.00 increases);
   b. to reinstate a suspended assistance payments contract when:
      (1) there is an assumption and the assumptor is found eligible for assistance; or
      (2) a foreclosure action is withdrawn;
   c. when an “interim” assistance payment was put into effect in accordance with Paragraph 10-13; and
d. when directed to do so by HUD.

2. Prospectively. Most assistance payments will be adjusted prospectively (i.e., adjustments made effective within 30 days after the processing of recent or anticipated changes when reported by the mortgagor as required). These changes may be due to, but not necessarily limited to, the following:

   a. changes in income or family composition reflected in a recertification; or
   b. an increase in the full monthly payment required under the mortgage.

B. Computation Changes. “Formula Two” assistance payments change every twelve months (on the anniversary of the beginning of amortization) at the time MIP changes for the coming year.

NOTE: This adjustment must be made even when the mortgagee has established an arbitrary anniversary date for the purpose of processing recertifications.

C. Effective Dates Of Changes (24 CFR 235. 360). The effective date of payment change recorded in Block 19 on Form HUD-93101-A must be in accordance with the following schedule:

<table>
<thead>
<tr>
<th>Action Requiring Change</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual recertification if mortgagor’s share of payment increases</td>
<td>First day of first or second month after receipt of Form HUD 93101 at the mortgagee’s discretion</td>
</tr>
<tr>
<td>Annual recertification if mortgagor’s share of payment decreases</td>
<td>THE first day of the first month after receipt of Form HUD-93101</td>
</tr>
<tr>
<td>Reported increase in income</td>
<td>THE first day of the first month after the effective date of income increase</td>
</tr>
<tr>
<td>Reported decrease in income</td>
<td>The first day of the first month after receipt of Form HUD-93101</td>
</tr>
<tr>
<td>Change in total monthly payment required under the mortgage</td>
<td>The date f the monthly payment amount change</td>
</tr>
<tr>
<td>Change in Formula Two” assistance due to an MIP change</td>
<td>The anniversary date of the beginning of amortization</td>
</tr>
</tbody>
</table>

10-16 ADVISING MORTGAGORS OF CHANGES. The mortgagee must notify the mortgagor of changes in assistance payments no less than 10 days before the due date of the first payment affected by the change.

A. Required Advance Notice Not Given. Any time there is an increase in the mortgagor’s share of the payment and the required 10-day advance notice cannot be given to the mortgagor, the mortgagee must arrange a schedule that is acceptable to both parties (must be one that is realistic and does not put an undue hardship on the mortgagor) for collecting any additional amounts that may become due before the 10-day advance notice period can be given.

NOTE: Payment schedule arrangements made between the mortgagor and the mortgagee should not result in overpaid assistance. The amount of assistance requested from HUD on Form HUD-93102 should be reduced effective on the effective date of payment change in accordance with the schedule provided in Paragraph 10-15C, regardless of when the mortgagee collects the higher mortgagor’s share of the monthly payment amount.

B. Written Notice To Mortgagor. The notice to the mortgagor should include, but not necessarily be limited to, the following information:
1. the total monthly mortgage payment, excluding items not required by the mortgage (such as premiums for life and/or disability insurance);
2. HUD’s share of the mortgage payment and whether it was computed under “Formula One” or “Formula Two”; 
3. the mortgagor’s share of that payment;
4. any additional amounts that must be paid by the mortgagor in connection with the mortgage payment which was excluded in Item 1 above (such as premiums for life and/or disability insurance);
5. the monthly gross income used to calculate the assistance payment for the purpose of providing a benchmark to help the mortgagor know when to report increases of $50 or more per month;
6. the due date of the first payment due from the mortgagor which reflects the increase.

10-17 RETENTION OF DOCUMENTATION (24 CFR 235.365). Form HUD-93114 and all other pertinent records must be in the mortgagor’s case file for the life of the insured mortgage plus three years. In the event the mortgage is transferred to another mortgagee or servicer, and/or assigned to HUD, this documentation must remain a part of the mortgagor’s case file and must be conveyed to the new mortgagee, servicer, and/or HUD which shall retain the entire case file for the life of the mortgage plus [seven] years.

10-18 SUSPENSION OF ASSISTANCE PAYMENTS (24 CFR 235.375).  
A. Events Which Require Suspension. Events listed below (and are also given under Item 15 of Form HUD-93114) require the suspension of assistance payments. Effective dates are also given as to when each is to be suspended.
1. When the mortgagor or cooperative member ceases to meet the occupancy criteria for continued assistance; Effective Date: the first day of the month following the date the mortgagor or cooperative member ceased to meet the criteria;
2. The mortgagee determines that the mortgagor or cooperative member ceases to qualify for assistance payments because of income increases enabling the mortgagor or cooperative member to pay the full monthly payments using 20 or 28 percent (whichever applies) of the family income. Effective Date: the date that the mortgagor received the increase in family income which enabled payment of the full monthly mortgage payment with 20 or 28 percent of the adjusted gross family income;
3. The required recertification of occupancy, employment, income and family composition cannot be obtained from the mortgagor. Effective Date: For annual recertifications, the assistance payment contract must be suspended if the recertification Form HUD-93101 has not been received 30 days after the anniversary date, or the disclosure and verification of the Social Security numbers are not provided. For other required recertifications, the contract is suspended as of the first day of the month following expiration of the 30-day period given the mortgagor for recertification.  
NOTE: Assistance payments are not to be suspended when a mortgagor requests recertification due to a reduction in income (i.e., optional recertification), and then fails to recertify.
4. Mortgage obligation or cooperative membership is assumed by a party before eligibility has been established. Effective Date: The first day of the month following the date on which the
seller fails to meet the occupancy criteria as set out in paragraph, or the assumptor assumes the mortgage or cooperative membership, whichever is earlier.

5. Foreclosure is initiated. Effective date: The first day of the month following the date the first legal action required by state law is taken by the mortgagee’s attorney to foreclose on the mortgage.

B. Suspension Notification Required. A notice shall be sent to the mortgagor advising of the suspension when:

1. the suspension of assistance payments is the result of a mortgagor being able to make the full monthly payment using the appropriate 20 or 28 percent of family income;
2. the mortgagor fails to submit a required recertification; or
3. the mortgagor fails to meet the disclosure and verification requirements for Social Security numbers in connection with a recertification.

C. Content Of Suspension Notice. The notice to the mortgagor must include the following:

1. the date of the suspension;
2. the reason for suspension (as stated in Paragraph 10-18A);
3. the mortgagor’s total required monthly mortgage payment;
4. a statement advising that for a period of 3 years immediately following the suspension, assistance payments may be reinstated at any time within that 3-year period if:
   a. circumstances occur which would eliminate the reason for the suspension; and
   b. provided that another event (listed in Paragraph 10-18A) has not taken place which would in itself require that the assistance payment contract continue to be suspended.

D. Reinstatement Effective Dates. A suspended assistance payment contract shall be reinstatement as follows:

1. Suspension Due To Mortgagor’s Non-occupancy Status. Assistance payments may be reinstated effective with the first monthly billing after the mortgagee receives Form HUD-93101 notification that the mortgagor meets the occupancy requirement.

2. Suspension Due to Over-Income Mortgagor. Assistance payments may be reinstated effective the first day of the month after the mortgagee receives Form HUD-93101 notification that the mortgagor is no longer “over income” and meets all other continued eligibility criteria. NOTE: Reinstatement may be as a result of a reduction in the mortgagor’s family income and/or due to an increase in the total monthly mortgage payment (such as an increase in amount being escrowed).

3. Suspension Due To Mortgagor’s Failure to Recertify. Assistance payments may be reinstated effective the first day of the month after the mortgagee receives the required Form HUD-93101.

4. Suspension Due To Mortgagor’s Failure to Disclose and Verify Social Security Numbers (24 CFR 235. 375(b)(4)). Assistance payments may be reinstated effective the first day of the month after the mortgagee receives the social security number information.

5. Suspension Due To Initiation of Foreclosure. Upon the withdrawal of foreclosure action, assistance payments may be reinstated retroactively to the date of suspension provided that, during the period the assistance payments were suspended, the mortgagor continued to meet all other criteria for receiving assistance payments.

   a. Negotiation of Reinstatement Terms. The terms of reinstatement of the mortgage (i.e., whether the delinquency is to be paid in a lump sum, or additional sums are to be paid each
month until the mortgage is current etc., may be negotiated between the mortgagee and the mortgagor. However, the terms agreed upon must be realistic and may not affect the monthly mortgage payment on which the Formula One assistance payment is based.

b. Reimbursement of Foreclosure Costs. Mortgagee retains the right to be reimbursed by the mortgagor for any costs incurred with respect to the withdrawn foreclosure action. However, these costs must be kept separate and apart from any Section 235 assistance. These costs may not be added to the monthly mortgage payment used to calculate the assistance payments and may not be billed to HUD as a separate item.


A. Events Which Require Termination. Events are listed below (and also given under Item 16 of HUD-93114) which require the termination of the assistance payment contract:

1. when the contract of mortgage insurance is terminated;
   EXCEPTION: The assistance payment contract is not terminated because HUD accepts an assignment of the mortgage.

2. the mortgage is assumed by a mortgagor or cooperative member who is not eligible for assistance; or

3. the assistance payment contract has been properly suspended for three consecutive years without the subsidy being reinstated within that three-year period of suspension; or

4. when the assistance payment contract for Section 246 10-year mortgages terminate unless extended by the Secretary.

B. Termination Effective Dates. Assistance payment contracts terminated for the events cited in the preceding paragraph shall be made effective the first day of the month following the date of the event which requires the termination of the contract.

C. Contracts Terminated In Error. Where the assistance payment contract is terminated in error, the mortgagee shall reinstate the contract immediately upon discovering the error. Form HUD-93114 must be submitted with the box checked under Item 17(1). (Item 17(1) denotes “Terminated in Error” as the reason for the reinstatement.) Documentation of the error is to be retained in the mortgagor’s case file for the life of the mortgage.

NOTE: Once a Section 235 assistance payment contract has been properly terminated it may not be reinstated.

10-20 ESCROW ACCOUNTS. Basically escrow accounts for Section 235 mortgages are serviced the same as escrow accounts for other insured mortgages (i.e., in accordance with procedures discussed in Chapter 2). However, certain differences will be encountered. Mortgagees must determine which escrow items and/or what portion of the premium for an acceptable escrow item may be included in the total monthly mortgage payment prior to computing the amount of subsidy the mortgagor is entitled to under the Section 235 program. Guidance for making this determination is as follows:

A. Escrow Items Which May Be Included In Assistance Computations. Only certain items required under the mortgage may be included in the assistance computations. The escrow items that are acceptable, and the guidelines for determining the acceptable portion of the premium for that escrow item (if the entire amount cannot be included) are listed below:
1. Hazard Insurance. Only the cost of either the standard fire and extended coverage or basic homeowner’s policy may be included in the assistance calculations. If a basic homeowner’s policy is used, the mortgagee must be sure that any premiums for other items, such as cars, boats or other properties are not included in the assistance calculations. If the cost of the basic homeowner’s policy appears excessive, the mortgagee must contact the agent and establish the cost of a standard fire and extended coverage policy and use the lesser of the two.

NOTE: Do not include disability or life insurance premiums.

2. Flood Insurance. The entire premium may be included in the computation if the insurance is required by HUD or the mortgagee.

3. Taxes. The entire amount for taxes and special assessments which are levied by a government body may be included in the assistance calculations. Caution, specified assessments may be payable over several tax years. Only the prorated portion due for a specific tax year may be included. NOTE: Do not include ground rents, assessments by mortgagors’ associations, and special assessments levied by persons or private organizations.

B. Additional Disclosures Required Prior To Closing. Prior to closing, mortgagees must make mortgagors aware of the following:

1. the availability of any tax exemption (i. e., available to the mortgagor at the time of closing) for which the mortgagor may qualify;
2. that the responsibility for applying for the exemption is that of the mortgagor;
3. that their assistance payments will be computed based on the assumption that the mortgagor will be receiving the tax exemption for which they qualify;

C. Adjustment Of “Excessive” Surpluses And Shortages. Where an escrow analysis reveals an “excessive” surplus or an “excessive” shortage, a retroactive analysis must be performed.

NOTE: Definition of “Excessive” Surpluses and Shortages. An “excessive” surplus or shortage is defined as any amount that is greater or less than requirements by more than 15 percent of the actual disbursements from the account during the most recent full year. Before applying the 15 percent rule, the mortgagee may add one-sixth to the actual disbursements if it has chosen to maintain the surplus permitted in Chapter 2 of this Handbook.

D. When Retroactive Adjustments Are Required. Retroactive adjustments must be made at the following times:

1. When The First Analysis Is Performed After Settlement. If a shortage or surplus is discovered at this time, the shortage or surplus was probably caused by an incorrect amount being collected at settlement to establish the escrow account.

NOTE: If the cause is due to an improper amount being collected at settlement, HUD would not be billed for any portion of the shortage or refunded any portion of the surplus.

2. When The Escrow Analysis Reveals an “excessive” surplus or shortage Allowed (as stated in the “NOTE” under Paragraph 10-20C).

3. When The Mortgage Is Being Assumed Or Paid In Full. Any necessary adjustment revealed by the required escrow analysis must be made prior to completion of either of these transactions. However, if this is not possible and/or the mortgagee later discovers an adjustment should have been made for underpaid assistance, make the appropriate refund to the mortgagor and bill HUD for the underpayment amount using an adjustment transaction Code 2 on the next...
regular month’s billing Forms HUD-93102 and HUD-300. The specific reason for adjustment must be provided in Column 3. For example, underestimated tax escrow. The beginning and ending effective periods of the adjustment (month and year) must be included in the reason for adjustment in Column 3 on Form HUD-300. A copy of the escrow analysis clearly depicting the cause of escrow shortage and the period must accompany Forms HUD-93102 and HUD-300.


5. When A Prospective Adjustment Would Reduce Assistance To Zero. (A retroactive adjustment is required to confirm the proper suspension of the assistance payments contract.)

E. Prospective Adjustments. Except as cited above, the mortgagee may exercise its option to make prospective adjustments.

F. Adjustment Procedure. Regardless of whether the adjustment is to be prospective or retroactive, the procedure is the same:

1. Adjust the “Formula One” Assistance Payment.
   a. Determine the exact amount needed in order to make proper disbursements as they become due;
   b. Determine if there were any reported changes (i.e., valid recertifications submitted to the mortgagee) in the mortgagor’s household income during the period for which escrow is being collected;
   c. Recalculate the “Formula One” assistance payment for any period where the income differed;

2. Verify Accuracy of the “Formula Two” Assistance Payment. If there was an anniversary of amortization during the period, the “Formula Two” payment should have been adjusted at that time because of the change in MIP. If no adjustment was made, the “Formula Two” payment must be recomputed for the period after that anniversary.

NOTE: A common error to look for when verifying Formula Two computations is the use of the wrong column in the Section 235 Factor Table Amortization Year - Formula Two when determining the anniversary factor. The first column on each page of this Factor Table is the factor for the first year (the origination factor) -- not the factor for the first recertification. For example, to compute the Formula Two assistance for the first annual recertification of a mortgage, the factor shown in the 2nd column would be the correct factor to use.

3. Compare the Two Results. For each period where the mortgagor’s household income differed, the smaller of the recomputed “Formula One” assistance payment and the correct “Formula Two” assistance payment is the amount that HUD should have been billed. Total the correct payments for the entire disbursement period for which money was being collected and compare these payment amounts with the amounts actually billed. The difference is the overpayment or underpayment of assistance.

10-21 BILLING FOR ASSISTANCE/HANDLING CHARGES. In order to receive Section 235 Original, Revised, Revised with Recapture or Revised, Recapture/10 Program assistance payments and handling charges, mortgagees must submit billings to HUD on a monthly basis using an original and one copy of Form HUD-93102, Mortgagee’s Certification and Application for Assistance or Interest Reduction Payments. Both the original and the copy of the Form-HUD-93102 must contain original signatures of an authorized mortgagee official.
NOTE: Only one Form HUD-93102 per mortgage will be accepted for processing each month regardless of the mortgagee’s servicing organization or billing procedures. Form HUD-93102 will be returned unprocessed if it is not accompanied by Form HUD-300 detailing as required all billing amounts included in Blocks 1, 2, 3 or 5 on Form HUD-93102.

A. Time Frame For Submitting Form HUD-93102. The Form HUD-93102 must be submitted to HUD (at the exact address shown on the back of the Form) no earlier than the 5th and no later than the 20th of each month in accordance with the instructions printed on the back of this Form.

NOTE: Adjustment amounts determined necessary subsequent to submission of a Form HUD-93102 for a given month must be included on the next regular month’s billing on the Form HUD-93102 line(s) provided for billing adjustment amounts. Duplicate Forms HUD-93102 submitted in the same month will be returned to the mortgagee unprocessed.

B. Submission/Completion Of HUD-93102.

1. A Single Form HUD-93102 For The Total of All Section 235 Program Assistance Payment Requests. One billing must be submitted on Form HUD-93102 which includes billing amounts for all Section 235 assistance payments due for either the Original program in Block 1, the Revised program in Block 2, the Revised with Recapture program in Block 3, or the Revised Recapture/10 program in Block 5. The billing must be submitted with an original and one copy of Form HUD-93102. Both the original and the copy must contain original signatures of an authorized mortgagee official. Failure to submit the original and a copy will cause payment processing delays.

NOTE: Mortgagees are no longer required to submit two separate Forms HUD-93102 for Section 235 assistance payments. The current Form HUD-93102, dated March 1988 must be used. Expired Forms HUD-93102 will be returned unprocessed.

If a billing is resubmitted for any reason, it must be clearly marked “Resubmission” on its face. Payments will be made to the servicer identified in HUD’s records regardless of any directions to the contrary that may be inserted on the billing form. HUD will only send payments to the servicer of record. Form HUD-92080, Mortgage Record Change must be submitted in accordance with Chapter 6 to report a change of servicers.

2. Adjustments To The Regular Monthly Billing Amounts. The adjustment Line 2 in each Block 1, 2, 3 or 5 on Form HUD-93102 must be used to request retroactive payment of assistance for prior months. Line 1 in Blocks 1, 2, 3 or 5 should include the total amount of assistance for the current billing period only.

Any billing amounts included on an adjustment Line 2 on Form HUD-93102 must be reflected as adjustment transactions using transaction Code 2 listed on Form HUD-300 should balance with the sum of the adjustment amounts on Lines 2 in Blocks 1, 2, 3 or 5 on Forms HUD-93102. Failure to verify that the adjustment amounts and the regular billing amounts on Form HUD-93102 balance with transaction code 1, regular billing and transaction Code 2, adjustment billing amounts on Form HUD-300 will cause payment processing delays.

3. Prior month billing amounts, adjustment transaction Codes 2. Prior month billing amounts must reflect the beginning and ending effective period (month and year) and an explanation of adjustment code in Column 3 as defined below. Any adjustment must also be supported by documentation requirements as defined below.

<table>
<thead>
<tr>
<th>Reason for Adjustment</th>
<th>Adjustment</th>
<th>Documentation</th>
</tr>
</thead>
</table>

Post Date: 09/11/2014
II. Title II Insured Housing Programs Forward Mortgages
B. Servicing
Appendix I – Programs and Products
K. Section 235 Mortgages

<table>
<thead>
<tr>
<th>Reason for Change</th>
<th>Code</th>
<th>Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinstatement of after suspension or termination in error</td>
<td>1</td>
<td>HUD-93114</td>
</tr>
<tr>
<td>Reinstatement after borrower’s failure to recertify timely</td>
<td>2*</td>
<td>HUD-93114, HUD-93101-A</td>
</tr>
<tr>
<td>Handling charges returned due to mortgagee's failure to meet contractual obligations</td>
<td>3</td>
<td>None</td>
</tr>
<tr>
<td>Suspension</td>
<td>4</td>
<td>HUD-93114</td>
</tr>
<tr>
<td>Termination</td>
<td>5</td>
<td>HUD-93114</td>
</tr>
<tr>
<td>Escrow Shortage</td>
<td>6</td>
<td>Escrow Analysis</td>
</tr>
<tr>
<td>Escrow Surplus</td>
<td>7</td>
<td>Escrow Analysis</td>
</tr>
<tr>
<td>Income Increase</td>
<td>8</td>
<td>HUD-93101-A, HUD-93101</td>
</tr>
<tr>
<td>Increase Decrease</td>
<td>9</td>
<td>HUD 93101-A, HUD-93101</td>
</tr>
</tbody>
</table>

1. NOTE: If more than one explanation of adjustment code applies to a single transaction, all applicable codes should be recorded in Column 3 on Form HUD-300 and all applicable documentation should be submitted. Failure to identify the period of billing, the explanation of adjustment code or the documentation required, as defined above will cause non-payment of assistance for the affected cases. The mortgagee will have to re-bill non-paid cases on the next monthly billing. Payment may not be requested on a second bill for the same month. Adjustment Code 2 must not be used in connection with the 7% interest penalty assessed due to fraud, misrepresentation and/or failure to meet contractual obligations. The 7% penalty must be submitted to HUD in accordance with Paragraph 10-29A.

C. Submission/Completion Of Form HUD-300. A Form HUD-300, Monthly Summary of Assistance Payments Due Under Sections 235(b), 235(i), or 235(i), or of Interest Reduction Payments Due Under Section 236, must accompany the completed Form HUD-93102.

1. Mortgages using facsimile versions of Form HUD-300 must include on the modified version, all data required on the actual Form HUD-300.

2. Any transaction Code 1, current month’s regular billing amount which is more or less than the amount billed in the prior month must be supported by appropriate documentation as follows:

<table>
<thead>
<tr>
<th>Reason for Change</th>
<th>Documentation Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case reinstated</td>
<td>Form HUD-93114 and unless suspended in error, Forms HUD-93101-A and HUD-93101</td>
</tr>
<tr>
<td>Income increase or decrease</td>
<td>Form HUD-93101-A</td>
</tr>
<tr>
<td>Monthly mortgage payment amount changed due to escrow shortage or surplus</td>
<td>A copy of the escrow analysis clearly depicting what caused the required decrease or increase in escrow (e.g., taxes underestimated by $20 per month)</td>
</tr>
</tbody>
</table>

D. Review For Billing Accuracy. HUD will review billings for propriety, legality and correctness. When a billing is received that is not signed by an authorized mortgagee official, not accompanied by a Form HUD-300, and/or requests amounts which cannot be reconciled to
FHA Single Family Housing Policy Handbook  
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1. FHA/HUD case detail provided on Form HUD-300, it will be returned to the mortgagee unpaid.  
2. No payment will be made until the mortgagee has submitted a corrected billing for that month.  
3. When the amount billed for a case is more or less than the amount billed in the prior month, no payment will be made for the case unless the billing is accompanied by the required Form HUD-93101-A, escrow analysis, or HUD mortgage recapture approval letter, whichever is applicable.  
4. When a mortgagee determines that an income increase is not retroactive, as reflected by the “effective date of payment change” entered in Block C (7) on Form HUD-93101-A (i.e., the mortgagor’s income increase was not received prior to the date that the mortgagee received the mortgagor’s recertification), a copy of HUD-93101 must be attached to the Form HUD-93101-A for accounting office verification of the overpaid subsidy determination. When the effective date of payment change reflects that an income decrease is retroactive, Form HUD-93101 must be attached to Form HUD-93101-A for verification of the underpayment determination (also see Paragraph 10-31). No payment will be made on cases when non-retroactive subsidy decrease, or retroactive subsidy increase amounts as described above are not documented for verification by attachment of both Forms HUD-93101-A and HUD-93101 to the billing Form HUD-93102.  
5. Subsidy increases due to escrow shortage will not be paid for any case unless:  
   1. the billing is accompanied by an escrow analysis; and  
   2. for each escrow item disbursed which was included in the subsidy amount calculation, copies of the canceled checks and invoices for accounting office verification of the shortage computation are attached.  
E. Mortgagee Liability (24 CFR 235.361(b)). Mortgagees are responsible for the accuracy of the billings and shall be held liable for fraud or false certification made on these billings (see Paragraph 10-28B). All billings must be signed by an authorized mortgagee official. Improper billings may result in the imposition of substantial financial penalties as the Program Fraud Civil Remedies Act applies to assistance payments.  
NOTE: Mortgagee signing officials should give special attention to the meaning of the certification signed by authorized mortgagee officials on Form HUD-93102. The signing official is certifying, subject to the Program Fraud Civil Remedies Act, that:  
   1. the assistance payment amount requested for each case included in the bill has been correctly calculated both for the amounts and the periods claimed due in accordance with the provisions of this Handbook;  
   2. the bill does not include any amounts on behalf of mortgagors who have not complied with recertification requirements within the time limits specified in this Handbook, or in the manner set forth in 24 CFR 235.350;  
   3. the bill does not include amounts on behalf of mortgagors not eligible for assistance in accordance with provisions set forth in 24 CFR 235 and as set forth in this Handbook;  
   4. no amount in the billing has been previously claimed in an outstanding bill, determined by HUD as not payable in a previous bill (i.e., determined not payable after a HUD review of required billing support documents) or paid in a previous bill;  
   5. supporting details, records and worksheets, together with a copy of the applicable billing are being held in the mortgagee’s file; and  
   6. all aforementioned documents will be furnished or made available upon request of an authorized official of HUD or of the Comptroller General of the United States. A determination
made upon review that certification to the above was false may result in the imposition of substantial financial penalties.

F. Receipt of HUD’s Payment. When a billing is submitted to HUD in accordance with outstanding instructions and within the time frame shown in Paragraph 10-21, payment should reach the mortgagee on or about the first day of the following month.

G. Monthly Billing. HUD will process payment for only one monthly billing form. Duplicate requests will be returned to the mortgagee unprocessed.

1. Monthly billings must be submitted on the current Form HUD-93102, dated March 1988 which may be obtained from the Government Printing Office. Obsolete Forms HUD-93102 will be returned unprocessed.

2. Recertifications of income which accompany the billing must be submitted on the current Form 93101-A, dated March 1990

3. Monthly billings should include:
   a. the assistance amount due for the current billing period on Line 1 of the appropriate Block 1, 2, 3 or 5; plus
   b. the assistance amount for any prior months the mortgagor was entitled to assistance but for which the assistance amount was not paid on a previously submitted Form HUD-93102 or included on an outstanding Form HUD-93102 on Line 2 of the appropriate Block 1, 2, 3 or 5; minus
   c. adjustments for overpaid amounts due HUD which is also on Line 2 of the appropriate Block 1, 2, 3 or 5;
   d. the net total of Line 1 and Line 2 on Line 3 of the appropriate Blocks 1, 2, 3 or 5; and
   e. the summary total from Line 3 of Blocks 1, 2 and 3 in Block 4.

NOTE: Overpaid subsidy identified in response to HUD conducted mortgagee reviews requiring retroactive assistance payments reviews to be performed by mortgagees should not be included on the regular monthly billing. The required review must be completed within the time frame specified by HUD’s (or its agent’s) mortgagee review report. Overpayment must be submitted on a separate billing clearly denoted in large print at the top of the billing as a “Retroactive Review Billing”.

This billing must be accompanied by:
1. a check made payable to HUD for the total overpayment amount; and
2. a mortgagee review findings report which lists in columns, the following information:
(a) the name of each overpaid mortgagor;
(b) the FHA case number;
(c) the month and year of the beginning and ending period of overpaid subsidy (i.e., 3/86-5/88);
(d) the overpayment amount;
(e) an explanation of:
   i. the cause of overpayment (using explanations of adjustment codes from Paragraph 10-21);
   ii. the date of the event which resulted in the overpayment; and
   iii. the effective period of the adjustment.
(f) the mortgagee’s calculation of the overpayment amount; and
(g) attachments Forms HUD-93101-A, HUD-93101, HUD-93114 (one HUD-93114 to suspend the assistance payments and one to reinstate the assistance payments for retroactive suspensions resulting in overpayments) and/or escrow analyses as applicable to the explanation given for overpayment. Copies of the check and Forms HUD-93102 and HUD-300 must also be sent to the appropriate HUD local Office that conducted the review.

H. Rounding Off Billing Amounts. At the option of the mortgagee, assistance may be billed in either of the following ways:

1. using the exact amount to which the mortgagor is entitled; or
2. using the amount arrived at after rounding off the exact amount to the nearest dollar (i.e., $.01-$ .49 round down to zero; $0.50-$ .99 round up to $1.00).

Regardless of which method is used when billing HUD, mortgagees must be consistent and must use the same method (i.e., rounding off or using the exact amount) must be used for all amounts billed and used when crediting the individual mortgagor’s account.

I. Billing Of Handling Charges. The mortgagee is entitled to a $3.00 handling fee per month, per active Section 235 mortgage account.

10-22 ASSUMPTIONS. Assistance may be continued on behalf of an assumptor if that assumptor meets all qualifying requirements as of the day the mortgage assumption actually takes place (i.e., the day the mortgage is executed by the assumptor at closing).

A. Assistance Eligibility. The information on Form HUD-93100-4 must reflect that, on the day of closing, the assumptor’s status qualified him/her for assistance based on the eligibility criteria for new mortgagors.

NOTE: The assumptor’s household is not required (as the original mortgagor was) to have five or more members if the property has four or more bedrooms.

B. Additional Underwriting Requirements For Section 235 Assumptions. Assumptions of Section 235 mortgages are treated the same as those insured under any other section of the Act except for the following additional underwriting requirements:

1. where subsidy eligibility must be determined, the assistance application (Form HUD 93100-4) is to be reviewed before the credit application and, if assistance is to be authorized, the amount of assistance is to be used as income in the credit evaluation; and
2. if the firm commitment to insure the original mortgage or direct endorsement underwriter’s credit approval was issued on or after May 27, 1981, the assumptor must sign, at closing, a note agreeing to pay any recapture of assistance that may be due HUD in order to satisfy this lien on the property (24 CFR 235.12). (See Chapter 11).

C. Mortgagee Responsibility. In addition to enforcing the [HUD’s creditworthiness requirements], when the mortgagee becomes aware there has been or will be an assumption, the following action must be taken:

1. make the assumptor aware that he/she may be eligible for assistance;
2. prepare the necessary documents to determine eligibility for assistance (if assumptor wishes to be considered for assistance);
3. where the assumptor appears to be eligible for assistance, processing must be delayed until the local HUD Office has determined whether assistance can be approved in order that any assistance may be considered in the credit analysis;
4. make the assumptor aware of his/her recapture responsibilities (as listed below) if the
firm commitment (or direct endorsement credit approval) was issued on or after May 27, 1981:
a. there is an existing lien against the property in favor of HUD which shall remain there
until satisfied;
b. the recapture will become due immediately due if he/she does not:
   (1) qualify for assistance;
   (2) agree to accept the assistance for which
   (3) agree to execute a new note at closing;
c. the recapture becomes due once the assumptor acquires title to the property. He/she will
   be held liable for the full amount required to satisfy HUD's lien on the property;
5. where appropriate, take the necessary action to obtain and prepare the required
documentation and collect the amount due HUD to satisfy the recapture lien in accordance with
Chapter 11; and
6. suspend the assistance payments contract if the mortgage is assumed before HUD
approves the assumptor for assistance.
D. HUD Responsibility. In addition to enforcing [HUD’s creditworthiness requirements],
when HUD becomes aware that there has been or will be an assumption, it will:
1. determine the assumptor’s eligibility for assistance;
2. if eligible, determine the initial amount of assistance for which the assumptor qualifies;
3. where appropriate, determine whether the assumptor’s credit qualifies (if the case is not
being processed by a direct endorsement mortgagee);
4. where appropriate, take the necessary action to:
   a. obtain and prepare the required documentation to determine the recapture amount due in
   order to satisfy the Section 235 lien;
   b. collect and deposit the amount due HUD;
   c. prepare the satisfaction of the recapture lien in accordance with instructions provided in
   Chapter 11;
   d. obtain the signatures of an authorized HUD
   official and get the satisfaction notarized; and
   e. forward the executed and notarized satisfaction to the mortgagee in accordance with
   instructions outlined in Chapter 11.
E. Cut-off/Start-up Dates For Assistance. Assistance should be cut off and started as
follows:
1. When assumptors are approved before acquiring title:
   a. subsidy will cease on behalf of the seller effective the first day of the month after he/she
   moves out of the property;
   b. subsidy will begin on behalf of the approved assumptor effective the first day of the
   following month (i.e., the month after the seller moved out) PROVIDED the assumptor has
   moved into the property and has acquired title to the property by the effective date.
   NOTE: For this purpose, the acquisition date may be considered as the date the deed was
   recorded unless the mortgagor can demonstrate an earlier date.
   c. if the assumptor does not acquire title and occupy the property within 90 calendar days
   after the seller moves out, the assistance payments must be suspended.
NOTE: Suspension will continue until the first day of the month after the assumptor has moved into the property and has acquired title to the property.

2. When assumptors are approved after acquisition of title:
   a. subsidy will cease on behalf of the seller effective with the first day of the month after occupancy ends;
   b. subsidy will begin on behalf of the assumptor effective (depending on the length of delay between the assumption and application for assistance) as follows:
      (1) Delay of 90 Days or Less. If no more than 90 days elapse between title acquisition and application for assistance, payments shall be made retroactive to the first day of the month following title acquisition or occupancy of the property, whichever is later.
      (2) Delays of More Than 90 Days. If more than 90 days elapse between title acquisition and application for assistance, payments shall be made effective from the first day of the month following application, PROVIDED the assumptor has title and occupies the property when the application is submitted and through the time that the application for assistance is approved.

10-23 DELINQUENCY AND DEFAULTS. Mortgagors are expected to treat Section 235 mortgages in the same manner as other insured mortgages when they become delinquent. The mortgagor remains eligible for assistance until the mortgagee takes the first legal action required to initiate foreclosure or until some other event requires suspension or termination of the assistance payments contract.

A. Partial Payments. Assistance payments for periods when the mortgagor fails to make his/her share of the mortgage payment are not to be considered partial payments of the mortgagor’s share of the full monthly mortgage amount. HUD assistance payments must be accepted regardless of the amount or the length of the delinquency. Before foreclosure may be started, all partial payments of the mortgagor’s share must be applied toward the unpaid monthly installments, beginning with the earliest unpaid installment.

1. All assistance payments earned up to the time of the action to foreclose the mortgage must be billed for and applied to complete the monthly installments in the order in which they become due, e.g., to MIP, escrow, interest, and principal, beginning with the earliest unpaid installment. All unearned assistance payments should be applied as a reduction toward the amount billed HUD monthly on Form HUD-93102.

2. Reinstatement of the account by the mortgagor may not be delayed pending receipt of earned but unpaid assistance payments, and those payments must be billed for promptly when the mortgagee decides to accept reinstatement from the mortgagor.

NOTE: The rules governing return of partial payments in Paragraph 7-9 apply only to the mortgagor’s share of the payment, not to the portion that is paid by HUD.

B. Forbearance. Assistance payments are not affected by forbearance agreements. They are treated as partial payments as described in the preceding paragraph. During these periods, however, the mortgagor must maintain eligibility for assistance (i.e., by continuing to occupy the property, providing required recertifications, etc.) and the mortgagee must continue to make adjustments to the amount of assistance for which the mortgagor is entitled as though the mortgagor were making his/her portion of the monthly payments as required.
C. Special Forbearance. Assistance payments are not affected by special forbearance agreements. The special forbearance agreement:
1. shall be prepared in accordance with instructions outlined in Paragraph 8-4; and
2. shall include an additional provision recognizing that the assistance payments will continue to be adjusted as required under the Section 235 program;

D. Recasting. When a Section 235 mortgage is recast, the monthly payment due under the mortgage as recast becomes the base for calculating both “Formula One” and “Formula Two” assistance payments. The new principal amount after recasting is considered the original mortgage amount for amortization purposes and the new maturity date governs.

NOTE: MIP is not affected by recasting. Regardless of the new unpaid principal balance, the MIP continues to be calculated on the original scheduled unpaid balances.

10-24 ASSIGNMENT TO HUD. Assistance payments are not affected by an assignment of the mortgage to HUD. The assistance payment contract shall remain in effect up to the date the assignment is filed for record.

NOTE: The last assistance payments for which the mortgagee should bill HUD are those for the month immediately preceding the month in which the mortgage is assigned.

10-25 PREPAYMENTS. Section 235 prepayments shall be as follows:
A. Partial. If partial prepayments have been applied to reduce future monthly payments (see Paragraph 5-3A2), both “Formula One” and “Formula Two” must be recalculated based on the revised payments.
B. In Full. The last assistance payment payable will be for the month the mortgage was paid in full presuming the mortgagor was in occupancy and was the legal owner on the first day of the month.

10-26 TRANSFER OF SERVICING. A transfer of servicing has the following affect on a Section 235 mortgage:
A. Assistance Eligibility. A mortgagor’s eligibility for assistance will not be affected;
B. Recertifications. Annual recertification may be affected if:
1. the mortgagees involved in the transfer use different anniversary dates for recertification; and
2. the transfer would result in a lapse of more than 15 months between recertifications.
C. Additional Recertification Required. Where the situation described in Paragraph 10-26B occurs, the new mortgagee or servicer must require recertification twice in the first year after acquisition—one on the anniversary date used previously by the former mortgagee or servicer and the second one on the anniversary date that is being used by the new mortgagee or servicer.
D. Additional Notice To Mortgagor. Within 10 days of the transfer, the new mortgagee or servicer must:
1. advise the mortgagor of the transfer of the mortgage; and
2. provide the mortgagor with the new recertification schedule.
NOTE: The above disclosures may be included with the notice of servicing transfer required by Paragraph 6-11B or sent as a separate notice. However, if the above disclosure is sent as a part of the normal notice required by Paragraph 6-11B when a mortgage is transferred, the notice must be received by the mortgagor at least 10 days before the due date of the first payment to the new mortgagee or servicer.

E. Seller’s/Purchaser’s Servicing Responsibility. When an insured mortgage is sold, the purchasing mortgagee succeeds to all rights and becomes bound by all of the obligations of the selling mortgagee under the contract of mortgage insurance. Purchasing mortgagees should be aware that they will be held fully responsible to HUD financially for errors or omissions on the part of the selling mortgagee (or its agents), discovered after the transfer is reported, even though those errors or omissions may have taken place before it was reported to HUD.

10-27 POSSIBLE VIOLATIONS OF LAW OR REGULATIONS. Mortgagees are not expected to seek out evidence of wrongdoing on the part of mortgagors. Neither are they expected to extensively investigate allegations of wrongdoing brought to their attention. However, if a matter can be reasonably explained and/or resolved without extensive investigation, those facts should be used in computing assistance.

A. Mortgagee Responsibility.
1. General. The mortgagee’s actions taken independently of instructions from HUD must always be exercised with due care, using the best information available including recent information reflected in the mortgagor’s recertification, with its supporting verifying data.
2. Report Clues/Evidence of Mortgagor’s Possible Wrongdoing. Possible clues and/or evidence of possible wrongdoing on the part of the mortgagor are to be forwarded to the local HUD Office for whatever action it deems appropriate. Until notified by the local HUD Office as to the action that will be taken (if any), the mortgagee should make the appropriate adjustments in assistance payments as instructed in Paragraph 10-27A1. Such clues and/or evidence may include, but are not limited to, the following:
   a. a verification of income showing a date of employment or an increase in income much earlier than the date(s) certified to by the mortgagor which cannot be reconciled;
   b. an application for another type of loan which shows a new spouse with income and/or other additional sources of income not shown in the recertification;
   c. a disclosure, during negotiation of a repayment plan to cure a default, that the mortgagor or other family members have income not reported in the recertification;
   d. a name change of the person or a different person signs the recertification for which no reason is known;
   e. the receipt of allegations from either identified or anonymous sources containing enough specific information that would lead a person to believe that the recertification might contain false information; and
3. Information Not to be Reported. The mortgagee is charged with acting on its own initiative, basing its actions on the best information available (as outlined in Paragraph 10-27A1), and for documenting its files as to why a particular action was taken. The following are
the examples of cases where the mortgagee shall take appropriate action including completion of all required retroactive recertifications and therefore, need not refer the case to HUD include, but not limited to, the following:
a. where the mortgage was insured before January 5, 1976, and the mortgagor did not report an increase in income caused by a change in the source of income of any adult family member until the first normal recertification following the increase; and
NOTE: Reason for Not Reporting to HUD—A $50 increase (or more) per month on these mortgages does not require an additional recertification. The assistance payments are adjusted at the time of the annual recertification effective as of the date the income increase occurred.
b. where the mortgage was insured on or after January 5, 1976, and the mortgagor failed to notify the mortgagee of changes in total family income as noted in (a) above or the mortgagor did not report a $50 increase (or more) per month in adult family income until the annual recertification and overpaid assistance resulted.
NOTE: Reason for Not Reporting to HUD—While the mortgagor is obligated to report a $50 increase (or more) per month in adult family income when they are received, it was reported at the time of the annual recertification. Once the mortgagee learns that such an increase did go into effect and went unreported by the mortgagor, the mortgagee is to take the necessary steps to determine when the $50 (or more) income increased per month. Assistance must then be recomputed and the overpaid assistance refunded to HUD.
B. HUD Field Office Responsibility. The HUD Field Office Manager will review any information sent in with respect to possible wrongdoing on the part of a mortgagor and will determine whether further investigation is warranted.
1. Where An Investigation Is Warranted. Where it is warranted, the Field Office Manager will take the necessary steps to refer a case to the appropriate HUD office for investigation.
2. Where An Investigation Is Not Warranted. Where administrative action is appropriate and former investigation is not warranted, the Field Office Manager will notify the mortgagee, in writing, of its decision. Written instructions will also be provided to the mortgagee as to how it should proceed with the adjustment of the assistance payments.
C. Office Of The HUD Inspector General. The actual conduct of investigations into possible fraud or referral of information to other agencies for further investigation and decisions relating to prosecution is the responsibility of the Inspector General. Mortgagees will not normally be advised of the progress of investigations and should make no assumptions as to their possible outcome and its impact on assistance payments.

10-28 CAUSES OF OVERPAID ASSISTANCE. Overpaid assistance exists anytime assistance is billed and paid for any amounts greater than those for which a mortgagee/mortgagor is entitled. Listed below are the most common situations which result in overpaid assistance:
A. Mortgagee’s Failure To Meet Contractual Obligations. This occurs when the mortgagee fails to meet its obligations under the assistance payments contract as follows:
1. requesting a handling charge on cases when recertifications have not been requested timely;
2. failing to act in a timely manner when:
a. requesting a required recertification at the proper time;
b. recalculating assistance payments;
c. submitting Form HUD-93101-A and HUD-93114, as applicable;
d. adjusting subsidy payments when a recertification Form HUD-93101 is received containing information which requires suspension or adjustment of assistance payments billed;
e. retroactively calculating adjustments in assistance payments from the date of income increases and crediting overpaid assistance amounts to HUD when annual or interim recertifications reflect income increases;
f. timely requesting HUD to suspend assistance payments when mortgagors fail to respond to recertification requests within the specified time frame;
g. requesting reinstatements to be non-retroactive when suspensions were due to mortgagors failure to timely respond to certification requests; and/or
h. verifying recertified income in the manner set forth in Paragraph 10-10.

B. Mortgagee Fraud Or Misrepresentation. This occurs when:
1. mortgagees falsify certifications on monthly billing Form HUD-93102 submitted to HUD for assistance payments (see Paragraph 10-21E); or
2. any other fraud and/or misrepresentation in the Section 235 program.

C. Mortgagor Errors Or Omissions. The most common mortgagor errors are failures (for whatever reason) to:
1. report increases of adult family income of $50 or more per month when the mortgage was insured on or after January 5, 1976;
2. advise the mortgagee when the property is sold;
3. advise the mortgagee when he/she no longer meets occupancy or some other basic eligibility requirement; and/or
4. include an income source on a required recertification.

D. Mortgagor Fraud Or Misrepresentation. When a mortgagor fails to include income amounts or sources, and/or misrepresents occupancy or other eligibility data, on a recertification in an attempt to receive assistance for which he/she is not eligible.


A. Overpayments Caused By The Mortgagee. The mortgagee must refund to HUD all overpaid assistance and all handling charges for each month during which there was an overpayment, plus interest computed at the rate of seven percent per annum on the entire amount from the date of the first overpayment when an overpayment results from the following circumstances:
1. fraud or misrepresentation on the part of the mortgagee; and/or
2. the mortgagee’s failure to meet a contractual obligation, as described in Paragraph 10-28.

The total overpayment amount must be credited on the next month’s billing on Form HUD-93102 and should include return of handling charges paid for each period of overpayment for each case. Form HUD-300, Column 3, must reflect an explanation of the overpayment cause and the affected beginning and ending period (month and year). The 7% interest amount must be sent in a separate check made payable to HUD with an itemized listing of the 7% calculation and total interest due for each overpaid case. The check with the itemized listing should accompany the Form HUD-93102 billing.
B. Overpayment Caused By Error. When an overpayment is caused by an error on the part of the mortgagee or the mortgagor only the overpaid assistance need be refunded. The mortgagee shall refund the overpaid assistance by:

1. reimbursing HUD the total overpaid amount on the next month’s billing (on Form HUD-93102); and
2. collecting the overpaid assistance from the mortgagor in a lump sum or in installments while exercising due caution not to cause a default by the manner of collection selected (24 CFR 235.361(c)).
3. Only as a last resort should the mortgagee apply a mortgage payment or payments to the recovery of the overpaid amount.

NOTE: If the error which created the overpaid assistance was caused by the mortgagee then the mortgagee must repay HUD, however, HUD does not require the mortgagee to collect repayment from the mortgagor.

C. Mortgagor No Longer Obligated Under The Mortgage.

1. On cases where the mortgagor is no longer obligated under the mortgage, the mortgagee must send the mortgagor’s last known address to the HUD Office having jurisdiction over the mortgage.
2. The Claims Collection Officer in the HUD Field Office is responsible for the collection activities.

10-30 CAUSES OF UNDERPAYMENTS. Listed below are circumstances which may result in underpayments and are the only causes for which a mortgagee may bill for underpaid assistance:

A. math errors;
B. using a wrong factor in calculating the “Formula Two” assistance payment;
C. underestimating escrow requirements; and/or
D. the mortgagee’s failure to initiate an optional recertification after notification from a mortgagor of a reduction of income.

NOTE: Failure of a mortgagor to request an optional recertification at the time of a reduction in the income of an adult family member is not a justification to bill for an underpayment at a later date.

10-31 COLLECTING UNDERPAID ASSISTANCE. The total underpayment amount may be added to the next month’s billing (on Form HUD-93102). Retroactive billings for underpaid subsidy must be accompanied by Forms HUD-93101-A and 93101, Form HUD-93114 requesting reinstatement of a suspension in error, or an escrow analysis with support documents as defined in Paragraph 10-21D. NOTE: Underpayment requests will not be paid when the required documentation does not accompany Form HUD-93102, or the explanation of adjustment is not provided on Form HUD-300 with documentation required as defined in Paragraph 10-21B3.
10-32 RECORDS MAINTENANCE (24 CFR 235. 365 and 235. 830). HUD Field Offices will periodically review mortgagee records to establish that assistance is being billed properly. These reviews will normally cover recertifications, verifications, billings, suspensions, terminations, documentation, and escrow analysis. In addition to the records maintenance required on other types of mortgages, mortgagees must have complete records to support the amounts billed each month on each mortgage from the time of origination through termination of assistance payments (also see Paragraph 10-17), including recapture of assistance where applicable (see Chapter 11). These records must be adequate to support every dollar of assistance billed. Where records do not exist to substantiate the amount of assistance billed, assistance will be considered overpaid and must be refunded unless the mortgagee can reconstruct adequate records to support the payments. For each case, the records must include:

A. all initial applications (Forms HUD-93100-4) and required recertifications (Form HUD-93101 and 93101-A), with supporting verifications and other related documentation;
B. all optional recertifications that resulted in changes in assistance, with supporting verifications and other related documentation;
C. for each suspension, reinstatement, or termination:
   1. a Form HUD-93114;
   2. all individual escrow analyses related to overpaid or underpaid assistance; and
   3. individual ledgers (or other records) showing application of assistance to the account;
D. all monthly billings (Forms HUD-93102) for assistance payments with supporting documentation for all adjustments for overpaid or underpaid assistance;
E. for each monthly billing (Form HUD-93102), a case-by-case summary showing, for each case included in the billing, the following data elements:
   1. the date of endorsement for insurance;
   2. the original mortgage amount;
   3. the certified adjusted annual income used that month;
   4. the total mortgage payment that month;
   5. the “Formula One” calculation;
   6. the “Formula Two” calculation;
   7. the amount of assistance due;
   8. the explanation of adjustment code as provided in Chapter 10-21B3;
   9. the beginning and ending effective dates (month and year) of adjustment transactions Code 2;
10. the handling charge; and
11. the total bill.

10-33 RESPONSIBILITY FOR TRANSFERRING RECORDS. Mortgagees acquiring mortgages from other mortgagees and/or changing servicers are fully responsible for records that should have been maintained by the selling/transferring mortgagee or servicer. NOTE: If it is determined after a change of servicers that assistance has been overpaid, the servicer at the time of the discovery will be responsible for refunding the overpayment.

10-34 REPORTING TO HUD. For monitoring purposes, the following Section 235 reports are to be submitted to HUD Headquarters.
NOTE: These reports should not be submitted to Field Offices unless specifically requested.

A. Reports On Recertifications. A Form HUD-93101-A must be submitted on each case recertified. The appropriate address is printed on the form.

B. Ad Hoc Reporting. As needed, HUD will request information on the cumulative assistance paid on an account to date (i.e., from origination through termination of the assistance contract) to determine the amount of recapture due HUD in order to satisfy the recapture lien. Records must be maintained in such a manner as to enable the mortgagee to provide this information. Such information must be made available to HUD upon request.

10-35 INFORMATION TO MORTGAGORS (24 CFR 203. 508(c) and 235. 1001). Within 30 days after the end of each calendar year, the mortgagee must provide the mortgagor with a statement advising the following:

A. the total amount of assistance applied to the mortgagor’s account during the preceding year;
B. the taxes and interest paid on the mortgagor’s behalf during the year; and
C. a notice as to the probable deductibility of interest payments using substantially the language shown below:

“If you itemize deductions on your income tax returns, please read this notice. Under Section 1. 163-1(d) of Federal Income Tax Regulations, you, as the mortgagor, may deduct for Federal income tax purposes, only that part, if any, of mortgage interest payments made during the year which exceeded the amount of assistance payments made by HUD during the year. You are urged to contact your tax advisor or State and local tax offices for guidance regarding the deductibility of payments on your State or local income tax returns. “

10-36 REVISED/RECAPTURE/10 PROGRAM (24 CFR 235. 12). The Appropriations Act of 1984 reactivated the Section 235 Program as revised by the Housing and Urban Rural Recovery Act of 1983. Mortgages insured under Section 235 beginning in early 1985 are identified with case number suffixes (the last three numbers) 246, 346, and 546. The assistance payments contract on these mortgages is limited by the Housing and Urban Rural Recovery Act of 1983 to 10 years after mortgage origination. When the 10 year period ends, the mortgagee must terminate the assistance payment contract, if there is not a request by the Department to continue such assistance. The assistance paid during the contract period is subject to recapture by HUD under certain circumstances. Procedures and requirements of these mortgages are the same as for other Section 235 mortgage except as indicated below:

A. Documentation At Origination. Assistance payments on these mortgages are disbursed and monitored using an automated system. In order to set up a new case in the automated system, the HUD Field Office must have:

1. the completed Mortgage Insurance Certificate indicating the FHA/HUD case number;
2. the separate assistance payments contract which has been executed by both HUD and the mortgagee and the “Acknowledgement of Mortgagors”, signed by the mortgagors;
3. the mortgage interest rate;
4. the due date of the first principal and interest payment;
5. the mortgagee and/or servicer’s complete name, address and mortgagee number assigned by HUD;  
B. “Formula One” Assistance. Under this program, the “Formula One” assistance payment is the difference between the full monthly mortgage payment and 28 percent of the mortgagor’s adjusted monthly family income (as opposed to 20 percent under earlier versions of the program). The actual assistance paid is still the lesser of the “Formula One” and “Formula Two” payments.  
C. Recapture Of Assistance (24 CFR 235.12). In addition to the limited term of assistance, these mortgages are distinguished by a provision for recapture of assistance when the property is sold. (See Chapter 11 for detailed recapture procedures.)  
D. Mortgage Assumptions. Mortgages insured under this program are assumable under the same conditions as are any other insured mortgages. However, mortgagors will not be eligible for assistance after the tenth anniversary of the first payment due under the original mortgage. Assumtors and potential assumptors should be advised of these limitations and how these limitations shall affect them.  
NOTE: Allowable fees for assumptions of Section 235 mortgages are found in Chapter 4, Paragraph 4-4A3.  

10-37 ALIEN MORTGAGORS. To be eligible for assistance, a mortgagor must be a citizen of the United States or an alien admitted for permanent residence.  
A. Citizenship/Permanent Alien Status Proof Required. Evidence of this eligibility must be submitted to the mortgagee whenever:  
1. there is a new application for assistance;  
2. an existing cooperative membership is purchased;  
3. an assisted mortgage is assumed;  
4. an assisted mortgage is assigned to HUD; or  
5. an assisted mortgage that has been in default is reinstated under 24 CFR 203.608.  
B. Forms Of Acceptable Proof. When any of the events in the preceding paragraph occur, the mortgagee must ask the mortgagor to provide proof of eligibility based on citizenship. Acceptable proof may include:  
1. a Birth Certificate;  
2. a United States Passport  
3. an Alien Registration Card (i.e., “Green Card”); or  
4. a Naturalization Certificate.  
C. Mortgagee Certification. The mortgagee must then certify that acceptable proof as stated in the preceding paragraph has been submitted by all persons from whom it is required.  
NOTE: If the mortgagee cannot make this certification, the assistance payments contract must be suspended and the mortgagor notified of the consequences.  
D. Fraudulent Or Invalid Documentation (24 CFR 235.361(b)). If the documentation should prove to be fraudulent, invalid or inadequate, the mortgagor will be required to repay all assistance payments to HUD. In addition, the mortgagee may be required to refund overpaid assistance payments, plus handling charges and interest.
E. When Assistance May Be Reinstated. Assistance payments may be resumed at HUD’s discretion if all aliens not able to establish eligibility have moved from the property or have established eligibility.

2. Recapture of Section 235 Assistance Payments

Formerly HUD Handbook 4330.1, REV-5, Chapter 11

11-1 GENERAL. The Housing and Community Development Acts of 1980 and 1981 changed Section 235 of the National Housing Act to allow the Secretary of the Department of Housing and Urban Development (HUD) to require recapture of all, or a portion of, the assistance payments made on behalf of mortgagors under Section 235(i) who obtain FHA-insured mortgages.

11-2 MORTGAGES AFFECTED BY RECAPTURE PROVISION (24 CFR 235.12(a)). Section 235 mortgages are subject to a recapture where a firm commitment (or, under the Direct Endorsement Program, where the underwriter’s approval of the Mortgage Credit Analysis Worksheet) was dated on or after May 27, 1981.

A. If the Firm Commitment date is on or before May 26, 1981, the first mortgage is not under the Section 235 Recapture Program, even though the settlement date occurred after May 26, 1981. The suffix of the FHA case number of mortgages insured under the first and second Section 235 Assistance Program allocations ends in the number five (5).

B. If the Firm Commitment date is on or after May 27, 1981, the first mortgage is under the Section 235 Recapture Program, even though the suffix of the FHA case number may end in the number five (5). The suffix for mortgages insured under the Section 235 Recapture Program ends in the numbers fifty-six (56) and sixty-six (66).

C. If the Firm Commitment date is on or after October 22, 1984, the first mortgage is under the Section 235 Revised/Recapture/10 Program. The suffix of the FHA case number for mortgages insured under the Section 235 Revised/Recapture/10 Program ends in the number forty-six (46). (Refer to paragraph 10-36).

11-3 METHOD OF SECURING REPAYMENT (24 CFR 235.12(d)). The mortgagor is required to execute, at the time of closing of the first mortgage, a second note and mortgage or deed of trust (referred to as the security instrument or the HUD lien), with addendum, in favor of the Secretary to secure repayment of the assistance. The property is pledged as security for the second mortgage (i.e., the recapture lien).

11-4 MORTGAGEE’S RESPONSIBILITY PRIOR TO INSURANCE ENDORSEMENT. Upon making application with the mortgagee for assistance under the Section 235 program, the mortgagee shall make the mortgagor aware of the recapture provision by providing a copy of the “Notice To Buyer”

A. Contents Of “Notice To Buyer”. This notice describes:
B. Servicing

Appendix I – Programs and Products

K. Section 235 Mortgages

1. The provisions of the law which require the repayment of all, or a portion of, the assistance payments which are paid on the mortgagor’s behalf (and any subsequent assumptor of the mortgage) prior to the release of the second mortgage on the property;

2. The events which will “trigger” the recapture;

3. The formula used by HUD to determine the amount of recapture due to satisfy the second mortgage;

4. The importance of retaining all paid receipts and/or bills relating to improvements made to a property; and

5. The financial responsibility that is acquired by an assumptor if the mortgage is assumed.

B. Mortgagor’s Written Acknowledgement Required. At closing, the mortgagor must acknowledge that he/she has been made aware of the recapture provision by signing and dating an original and two copies of the “Notice To Buyer”.

C. Position Of Lien. It is the mortgagee’s responsibility to assure that the recapture lien, drawn in favor of the Secretary, is properly recorded in the appropriate position. The recapture lien may not be junior to any lien other than an FHA-insured first lien, unless:

1. There is a second lien held by a state or local government agency required by law to hold a second lien (such as a lien to secure repayment of funds advanced under a housing assistance program to make the initial cash investment or to assist in making mortgage payments); or

2. HUD has determined that it would be in the Secretary’s best interest to accept a junior lien position.

D. Preparation Of Closing Documents. Upon approval of Form HUD-93100-4 on Section 235 cases subject to the recapture provision, the HUD Field Office will add the following paragraph as a condition to its firm commitment:

“Second mortgage with addendum, and note in the format prescribed by HUD to be executed and recorded for the maximum amount of assistance as established by Formula II which could be paid over the term of the mortgage: $______________ (Amount to be entered on second note and mortgage (or deed of trust))”.

1. Security Instruments. Upon issuance of a firm commitment, the HUD Field Office having jurisdiction over the mortgage will instruct the mortgagee to modify the HUD-approved mortgage or deed of trust document for insured mortgages in that particular State to include the information for the Section 235 recapture mortgage or deed of trust, as follows:

a. Under the document caption, insert the words “with Addendum, for Repayment of Section 235 Assistance”;

b. Enter the words “the Secretary of Housing and Urban Development” as the mortgagee and delete any reference to a corporation;

c. Delete any reference to monthly installments;

d. Enter a statement that the principal sum of the mortgage will not exceed the amount computed under the note. The following language is acceptable:

“... but not to exceed an amount computed under the terms of a note executed by the mortgagor on ________________; with interest, if any, according to the terms of the note.”;

e. Delete the two paragraphs relating to the payment of escrow items; and
an addendum should also be added to provide for the special repayment provisions required by Section 235.

NOTE: The Note must be reproduced locally. HUD Field Office Counsel shall review model security instruments to be used to determine that they comply with local law and meet HUD requirements.

Information to be Inserted. The mortgagee completes these documents by inserting the following information:

- appropriate dates;
- names;
- property description;
- interest rate (which will be the same as the rate on the first mortgage); and
- the maximum amount of assistance that may be paid over the full term of the mortgage.

NOTE: The maximum amount will be the “Formula II” assistance payment shown on the Application for Assistance, Form HUD-93100-4, Line G-7.

E. Title Insurance. The title insurance does not need to recognize the junior recapture lien.

F. Hazard Insurance. The Secretary does not need to be named as a payee in the hazard insurance policy.

**11-5 REQUIREMENTS AT CLOSING.** The originating mortgagee is responsible for the following at the time of closing:

- **A. Execution Of Lien Documents (24 CFR 235.12(d)).** The documents creating the lien in favor of the Secretary shall be executed at the same time as those creating the first lien.

- **B. Identifying Costs.** Costs associated with the transaction may be paid by either the buyer or the seller, subject to the usual underwriting restrictions on such costs. Costs associated with both mortgages may be shown on the same HUD-1, Settlement Statement, as long as the HUD-1 clearly reflects what the costs were for and which costs were paid by the seller and which were paid by the purchaser.

**11-6 RECORDING THE LIENS.** The documents creating the second lien should be delivered for recording at the same time as those creating the first lien. It is the mortgagee’s responsibility to assure that the liens are recorded in the proper order.

NOTE: Should the recapture lien be inadvertently recorded in first-lien position, HUD will agree to subordinate its lien to correct this error as the mortgagee’s lien will not be insurable if it is not in first-lien position.

**11-7 INSURANCE ENDORSEMENT.** The mortgagee’s lien is submitted for mortgage insurance endorsement in the normal manner, accompanied by the following documents: the executed, original “Notice to Buyer”; a copy of the Note in favor of the Secretary; and copies of the executed security instruments with evidence that the originals have been delivered for recording (unless the original, recorded documents have been returned before the case is submitted for insurance endorsement).

NOTE: The application for FHA insurance will not be processed unless it is accompanied by the Notice to Buyer.
A. Where it is not customary for recorders to provide receipts for documents accepted for recording, the mortgagee’s certification will be accepted as adequate evidence that the original documents have been delivered for recording.

B. When the original documents have been recorded and returned, they are to be forwarded immediately to the appropriate HUD Field Office with the original note in favor of the Secretary. They will be retained by that HUD Field Office until the lien is satisfied.

11-8 GENERAL SERVICING. Servicing of the mortgage is governed by the procedures outlined in Chapter 10 until one of the events described in Paragraph 11-9 occurs which will “trigger” the recapture provision.

NOTE: Should the mortgagee find at any time that a case is not under the Recapture Program, but that a second mortgage (or deed of trust) with addendum and a note was executed by the mortgagor and recorded by the mortgagee, the mortgagee must contact the HUD Field Office, single Family Loan Management Branch. The insurance binder must be reviewed by HUD and a justification prepared for satisfying the HUD lien without calculating a recapture amount.

11-9 EVENTS TRIGGERING RECAPTURE PROVISION (24 CFR 235.12(a)). The recapture provision is "triggered" when any one of the following events occurs:

A. a property is sold to a party not eligible for assistance;
B. the mortgage is assumed by a party eligible for assistance but does not agree to accept assistance and/or assume liability for repayment of assistance paid on behalf of the seller (and previous mortgagors);
C. a property is rented (or, in the case of properties with more than one unit, the owner’s unit is rented) for more than one year; or
D. the mortgagor (or the mortgagor’s agent) requests that the Secretary’s lien be released.

11-10 FORMULA FOR CALCULATING RECAPTURE (24 CFR 235.12(b) and (c)). When the recapture provision is "triggered", the amount of recapture shall be determined by HUD to be THE LESSER OF:

A. the total amount of assistance paid on behalf of the mortgagor (and any previous mortgagors); or
B. 50 percent of the net appreciation (as determined by HUD) of a property.

NOTE: Net appreciation is any increase in the value of a property over the original purchase price, minus reasonable costs of sale, costs of refinancing the first mortgage or cost of the appraisal when paying off the HUD lien, and minus the reasonable costs of improvements made to a property.

11-11 MORTGAGEE’S ROLE IN RECAPTURE PROCESS. Whenever one of the events described in Paragraph 11-9 occurs, the mortgagee is charged with the responsibility for the following:

A. Advising both the HUD Field Office having jurisdiction over the mortgage and the HUD Headquarters Office of Finance and Accounting, Subsidy Accounting Branch that an event has occurred.
1 occurred which “triggers” the recapture provision. This notification shall include as much
2 information as the
3 mortgagee has available (i.e., FHA case number, the date of a prepayment associated with a sale;
4 the name and address of the assumptor, if the assumptor is not living at the property address; the
5 date the mortgage was assumed and the fact that the assumptor elected not to receive or did not
6 qualify for assistance, etc.).
B. Providing both the local HUD Field Office and the HUD Headquarters Office of Finance and
8 Accounting, Subsidy Accounting Branch, a statement in writing, signed by an officer of the
9 company, of the total amount of assistance paid on behalf of the original mortgagor and all
10 assumptors, if any, less handling charges and the total of any assistance payments which may
11 have been inadvertently applied to the mortgagor’s account.
C. Providing copies of original documents (i.e., signed settlement statements, sales contracts,
13 etc., which are contained in the mortgagor’s case file) that the mortgagor cannot provide, but are
14 needed by HUD to determine the amount of recapture due to satisfy the HUD lien.
D. Serving as the “go-between” where necessary and advising the mortgagor of the
16 documentation required to calculate the
17 recapture amount due HUD.
NOTE: THE MORTGAGEE MUST NOT CALCULATE THE RECAPTURE AMOUNT.
NOTE: If the mortgagor receives the recapture amount due either directly from the mortgagor or
19 as a disbursement from closing, the mortgagor shall promptly forward these funds directly to the
20 local HUD Office.
THE MORTGAGEE MUST NOT ASSUME ANY DUTIES CONCERNING THE
22 CALCULATION OF THE RECAPTURE AMOUNT.
E. Verifying and certifying that all appropriate recertifications (from the time of inception
24 through the time of termination of the assistance payments contract) have been correctly
25 processed and billed.
At the request of a Field Office, the mortgagor shall submit recertifications for review by that
Field Office before the recapture process begins.
F. Repaying any overpaid assistance (that may have been discovered as a result of Paragraph 11-
30 11E) as described in Chapter 10.
NOTE: Any amounts of overpaid assistance paid to HUD because of this requirement are to be so
32 indicated and subtracted from the amount reported in compliance with Paragraph 11-11B.
Any overpaid assistance should be handled as a separate transaction from the recapture amount
34 when processing a recapture case for satisfaction of HUD’s lien.
NOTE: If a check for an overpaid assistance amount is received or if the overpaid assistance is
36 included in the same check as the recapture amount, the check must be forwarded to HUD
37 Headquarters, Office of Finance and Accounting and a copy should be sent to the HUD Field
38 Office having jurisdiction over the mortgage immediately along with the back-up documentation
39 for the overpaid assistance amount.
G. Terminating the assistance payment contract in accordance with Chapter 10, Paragraph 10-19.
NOTE: If the mortgagor is refinancing the first mortgage, the mortgagee is charged with the
42 responsibility for items B, D, E, F, and G.

11-12 HUD’S ROLE IN THE RECAPTURE PROCESS. When the local HUD Field
Office is advised by a mortgagee, an attorney, a title company or other settlement party, of a pending or accomplished event which triggers recapture (as listed in Paragraph 11-9), the HUD Field Office may request the following items in order to compute the recapture amount due to satisfy the HUD lien:

A. a copy of the recorded second mortgage (or deed of trust) with addendum and executed note (should the HUD Field Office not have the original documents in its files);
B. a copy of the executed sales contract and HUD-1 settlement statement (signed by the settlement attorney) where the original mortgagor purchased the property;
C. a copy of the executed sales contract and HUD-1 settlement statement (signed by the settlement attorney) of any assumptor who purchased the property prior to the last mortgagor;
D. a copy of the executed sales contract and HUD-1 settlement statement (signed by the settlement attorney) when the last mortgagor (i.e., the last one receiving assistance) sold the property;
E. copies of paid receipts and/or bills marked “paid in full” for any improvements made to a property (by the original mortgagor and/or any assumptor);
F. a letter from the mortgagee, signed by an officer of the company, stating the total amount of assistance paid on behalf of the original mortgagor and all assumptors (if any).
G. an appraisal report on the property and a statement of the cost of the appraisal, if needed; and
H. a statement of the costs of refinancing the first mortgage, when needed.

11-13 DETERMINING THE RECAPTURE AMOUNT. To determine the recapture amount for a Section 235 recapture case, the documentation requested in Paragraph 11-12 must be reviewed. A formula is used to calculate the recapture amount. The cost of sale (or the cost of refinancing the first mortgage) and the cost of improvements to a property are subtracted from the appreciation of the property to arrive at net appreciation. See Paragraph 11-10.

11-14 REASONABLE COSTS OF SALE. Since the title of the property changes when the property is sold, the costs of sale must clearly indicate which costs were paid by the seller and which were paid by the purchaser and are subject to the usual underwriting restrictions on such costs. Costs of sale shall also conform to what is considered by the local HUD Field Office to be reasonable and customary for that area of the country. Otherwise, the excess will be disallowed. Costs of sale must be clearly identified on a HUD-1, Settlement Statement, signed by the appropriate person. If there is no HUD-1, the costs of sale must be itemized and supported by receipts.
A. Costs Allowed. Costs of sale items which HUD will allow to be claimed against the net appreciation of a property if the costs are paid by the original mortgagor and/or subsequent assumptors of the mortgage are:

1. broker's commission;
2. discount points (not origination fee);
3. property survey;
4. appraisal fee;
5. State and local taxes (charged in connection with the transaction, such as transfer taxes (not property taxes or amounts escrowed for the future payment of taxes);
6. attorney fees;
II. Title II Insured Housing Programs Forward Mortgages

B. Servicing

Appendix I – Programs and Products
K. Section 235 Mortgages

1. fees for the preparation and recording of documents;
2. notary fees;
3. costs of advertising the property for sale (but not if these costs are paid by the broker and included in the commission);
4. title search, but not if included in attorney's fee;
5. title insurance;
6. pest control inspection;
7. pumping out septic tank as a condition of sale (where required by State law);
8. buyer’s protection plans providing the buyer with a warranty as to the condition of the property and covering repair or replacement of certain elements of the property for a limited time; and/or
9. any other costs resulting from a State and/or local requirement.

B. Costs Not Allowed.
1. buydown fee (If there are no discount points allowed (see A.2. above), the buydown fee can be claimed against the appreciation of the property);
2. tax funding service fee; and
3. VA funding fee.

11-15 REASONABLE COST OF REFINANCING THE FIRST MORTGAGE. Since the title to a property does not change when the first mortgage is refinanced, the costs of refinancing do not include all of the costs allowed for costs of sale when a property is sold. Refinancing costs must be clearly identified on a HUD-1, Settlement Statement, signed by the appropriate person. If there isn't a HUD-1, the cost of refinancing should be itemized and supported by receipts.

A. Costs Allowed. If there are any prior assumptors of a mortgage that is being refinanced, the costs of assuming the mortgage (for each transaction) can be claimed against the appreciation of a property if the charges are documented. Costs of refinancing the first mortgage which HUD will allow to be claimed against the appreciation of a property (if the costs are paid by the last eligible mortgagor) are:
1. appraisal fee;
2. one discount point (not origination fee);
3. property survey;
4. pest control inspection;
5. title search;
6. lender's title insurance; and
7. fees for the preparation and recording of documents.

B. Costs Not Allowed.
1. Buydown fee (if there are no discount points, one point of the buydown fee can be claimed against the appreciation of the property);
2. tax funding service fee;
3. VA funding fee; and
4. mortgagor's title insurance (title of property).

11-16 REASONABLE COSTS OF IMPROVEMENTS.
A. To qualify as an improvement, improvements must be over and above deferred or routine maintenance to be allowed as claims against the appreciation of a property. They must be:

1. Acceptable to HUD;
2. Improvements that were not present or a part of a property at the time the mortgage was originated, unless it is an upgrade (see Paragraph 11-16B9 below);
3. Considered to be permanent improvements in that they will remain with a property when it is sold as they cannot be removed from the property without causing damage to existing structures and/or the property; and
4. Improvements for which the mortgagor can substantiate the cost with documented proof that such improvements were done to the mortgaged property site and for which the mortgagor has receipts marked “paid-in-full” as required in Paragraph 11-12E.

B. Allowable Improvements. Acceptable types of improvements which HUD will allow to be claimed against the appreciation of a property when computing the recapture amount include, but are not necessarily limited to, the following:

1. Room additions and other permanent additions, such as, but not necessarily limited to, porches, patios, decks, garages and carports;
2. Permanent landscaping and/or other site improvements that tend to increase the value of a property, such as fences, trees, shrubbery, lawns (if no lawn was provided initially) retaining walls, etc.;
3. Built-in bookshelves, cabinets, etc.,
4. Appliance additions (stoves, refrigerators, built-in dishwashers, built-in microwave ovens, clothes washers and dryers, and attic and ceiling fans) which are conveyed to buyer by seller;

NOTE: If items in #4 above are replacement items, they are not allowed against the appreciation of a property.

If the mortgagor bought original appliances after purchase of a new property, original costs of appliances can be claimed against the appreciation of a property. (In some sections of the country, appliances are not furnished by the builder, unless requested by the mortgagor.) Portable appliances are not allowed against the appreciation of a property.

The Field Office Evaluation staff shall be notified on a case-by-case basis to determine whether washers and dryers or other such permanent fixtures that are considered to be regional appreciation value assets can be claimed against the appreciation of a property.

5. Finishing or refinishing of basements or other rooms when the area was unfinished at the time of origination or the refinishing substantially alters the nature of the area and enhances the value of a property;
6. The addition of storm windows and/or doors or replacing regular windows with replacement windows (for the purpose of saving energy);
7. Installation of permanent heating or cooling systems where none existed, the addition of a solar heating system or replacing a conventional heating system with a solar heating system;
8. Carpeting areas where floors were previously without finished coverings (such as, a room addition, or a basement area);
9. Upgrading: appliances, cabinets, carpeting, electrical and plumbing fixtures, etc.

NOTE: If the mortgagor upgraded an item that the builder was to install at the time the structure was erected, the cost of the improvement is the difference in price for upgrading. If such items are replaced, the replacements cannot be claimed against the appreciation of a property.
10. television dish. (If the dish is listed in the sales contract and/or appraisal report and cannot be removed from the property without damaging the landscape, it can be claimed against the appreciation of the property.)

11. sheds and outbuildings. (If structures enhance a property and cannot be removed without damaging the landscape, they can be claimed against the appreciation of a property.)

12. building permits and inspection fees for property additions;

13. swimming pools are allowed as improvements on a case-by-case basis if:
   a. the swimming pool is below ground and enhances the value of a property (per appraisal) and/or is taxed by the municipality, its cost can be claimed against the appreciation of a property;
   b. the swimming pool is above ground, it may or may not be allowed against the appreciation of a property depending on the area of the country it is located. If the pool is not taxed by the municipality or is not given a value in the appraisal of the property, its cost cannot be claimed against the appreciation of a property;
   c. a swimming pool or other such fixture, i.e., outdoor hot tub, is affixed to a property and cannot be moved without damaging the fixture or the landscape, is taxed by the local municipality and/or enhances the value of the property (per appraisal), its cost can be claimed against the appreciation of a property;

14. special assessments, such as water and sewer lines connecting a property to the water and sewer lines of a municipality, the paving of streets, sidewalks and alleys, wiring for electricity and telephones and piping for gas must be handled on a case-by-case basis; and

15. land issues (those considered to be improvements must be handled on a case-by-case basis).

NOTE: The HUD Field Office must be contacted for guidance in handling special assessments and land issues as improvements and their costs as claims against the appreciation of a property.

C. Miscellaneous Improvements Of Less Than $100 Per Project. Miscellaneous improvements which are less than $100 per project are to be considered incidentals and are not to be allowed as a claim against the appreciation of a property. Included in this category are such items as molding, weatherstripping, sod, grass seed, fertilizer, etc.

D. Group Improvements As Projects. When a major improvement which involves the purchase/rental of numerous items of equipment and/or materials is claimed, it must be grouped together as one project. However, each item purchased for that project must reflect its own separate cost.

E. “Sweat Equity”. Where the work is performed by the mortgagor (i.e., “sweat equity”), no monetary value will be given for the “sweat equity” with respect to being used as a claim against the appreciation of a property. However, the cost of building permits, inspections, renting items of equipment and purchasing the supplies and materials necessary to accomplish the work can be allowed.

F. Rental Equipment. Costs of renting equipment for the specific use in completing an acceptable improvement (as described in Paragraph 11-16B) may be used as claims against the appreciation of a property.

1. Rental equipment which may qualify as claims against the appreciation of a property includes, but is not necessarily limited to, backhoes, bulldozers, cement mixers, jackhammers, electric or air-driven nail/brad/staple guns, posthole augers, fence wire stretchers, etc., which were rented for the sole use in completing a specific home improvement listed in Paragraph 11-16B.
2. Equipment which does not qualify as a claim against the appreciation of the property includes miscellaneous tools and equipment purchased for use in completing an improvement as described in Paragraph 11-16D and will also be used for performing other tasks and/or home improvements. Such items may include, but are not necessarily limited to, shovels, picks, ladders, carpenter levels, saws, drills, hammers, utility knives, screwdrivers, wire cutters, wrenches, caulking guns, cement trowels, etc.


Where an improvement is paid for on a monthly installment plan (whether paid to the company providing the service, a bank, a credit card company, etc.) only the initial cost of the improvement (excluding any interest, finance charges or late charges) may be used as a claim against the appreciation of a property.

H. Receipts/Documentation Of Improvements. In order to support the cost of an improvement, the mortgagor must present receipts or invoices on company letterhead marked “paid-in-full” for each allowable home improvement. Receipts which are written on paper without a business letterhead, or without specific (or legible) entries as to what service was provided, who provided the service, the date the service was provided, and/or what type of material was purchased, and where appropriate, at what property address the service was performed, etc., may be subject to further scrutiny and/or rejection by the HUD Field Office.

I. Replacements. Items such as roof replacements, heating system replacements (except solar heating systems), and exterior and interior painting are home maintenance. They must not be claimed against the appreciation of a property as improvements.

J. Items Not Allowed As Improvements.

1. Draperies, curtain rods, window shades and blinds are never allowed as improvements unless they are approved by Headquarters.

2. Plumbing fixtures (such as faucets and water purifiers) and light fixtures cannot be claimed against the appreciation of a property unless they are installed as part of a major improvement or they are approved by Headquarters.

3. Intercommunications systems must not be claimed against the appreciation of a property.

11-17 FRAUD AND ABUSE. Careful scrutiny is to be given where substantial improvements have been made over a short period of time, shortly after purchase of a property, and/or over an extended period, which exceed $10,000 while assistance was still being paid.

NOTE: Occurrences such as these, will lead to the HUD Field Office questioning the mortgagor’s need for assistance and/or the possibility of fraud in the original application process.

11-18 CALCULATING THE RECAPTURE AMOUNT.

A. Calculating The Recapture Amount. The HUD Field Office shall calculate the amount of recapture due in order to satisfy the lien using the formula shown in Paragraph 11-10 and on the Recapture of Assistance Payments Worksheet. Only the HUD Field Office shall calculate the amount of assistance to be recaptured.

B. Selling Price. If the HUD Field Office feels that the reported selling price is substantially below the property value or discovers that the property is being sold for less than the amount for
which it was purchased, the HUD Field Office has the option of requesting that the mortgagee obtain an appraisal of the property.

NOTE: If the appraised value is five (5) percent or more above the sales contract price, the recapture will be based on the appraised value rather than the selling price shown on the sales contract.

11-19 DISPOSITION OF THE RECAPTURE CHECK. The HUD Field Office has the responsibility of collecting the recapture amount from the mortgagor or the mortgagor’s representative. Should the recapture amount be collected by the mortgagee, the check must be forwarded to the appropriate HUD Field Office and the Office shall forward it to a lockbox in Atlanta, Georgia.

11-20 RELEASING THE RECAPTURE LIEN. Upon receiving the full recapture amount required to satisfy the second mortgage, or second deed of trust, the HUD Field Office will prepare, execute, record and forward the recorded Satisfaction of Lien to the mortgagee or the agent representing the mortgagor. The mortgagee or mortgagor’s agent will then be responsible for forwarding the document * to the mortgagor.

11-21 SATISFYING THE LIEN BEFORE OBTAINING RECAPTURE AMOUNT. If the settlement on a property is imminent, the second mortgage or second deed of trust has not been satisfied, and there is a request to satisfy the lien before closing, the mortgagor must be informed that since there is not enough time to do the recapture formula to determine the recapture amount, the full amount of assistance paid on the mortgagor’s behalf must be submitted to HUD so that the HUD lien can be satisfied before settlement of the mortgage. When the recapture calculation has been completed, if there is an overpayment, the overpayment shall be refunded to the mortgagor.

11-22 ASSIGNMENT TO HUD. In those cases where the HUD Field Office has decided to accept an assignment of the first mortgage, the recapture lien shall remain in place. The mortgagee must advise both the HUD Field Office and the HUD Headquarters Office of Finance and Accounting, GPA - Subsidized Housing Programs Division, Attention: Accounts Payable Section (the mailing address on Form HUD-93102) in writing, signed by an officer of the company, of the total amount of assistance paid through the date of assignment.

11-23 FORECLOSURES - HUD-ACQUIRED PROPERTIES. For those properties conveyed to HUD as a result of foreclosure, the mortgagee must advise the HUD Field Office, in writing, signed by an officer of the company, of the total amount of assistance paid over the term of the mortgage. It will not be necessary for HUD to prepare a satisfaction of lien for the HUD lien. A foreclosure that is properly processed by the mortgagee’s foreclosing attorney will wipe out all existing liens on the property, including HUD’s lien. However, if the HUD lien exists after foreclosure of the first mortgage, the HUD Field Office must satisfy the lien at the request of the foreclosing attorney.
11-24 DEED-IN-LIEU OF FORECLOSURE. For the mortgage that is conveyed to HUD as a result of a deed-in-lieu of foreclosure, the recapture lien shall remain in place. The mortgagee must advise the HUD Field Office, in writing, signed by an officer of the company, of the total amount of assistance paid over the term of the mortgage.

NOTE: Once the property is in HUD’s Property Disposition inventory, the HUD Field Office will prepare and record a satisfaction of the recapture lien in order to provide a clear title when the property is sold by HUD.

11-25 RELOCATION OF MORTGAGOR BY EMPLOYER.
A. Termination Of Assistance. If an employer requires a Section 235 mortgagor to relocate, and the employer assumes the responsibility of selling the mortgagor’s property, the mortgagee must terminate the assistance at the appropriate time. (Chapter 10, Paragraph 10-19.) The mortgagee must furnish the HUD Field Office with a statement of the total amount of assistance paid on behalf of the original mortgagor and any assumptors of the mortgage.
B. Value Of Property. The mortgagee must provide the HUD Field Office with an appraisal to determine the fair market value of a property or the HUD Field Office must request an appraisal of the property.

11-26 DISLOCATION OF MORTGAGOR (EMINENT DOMAIN).
A. Relocate To Another Property. If a State or local government dislocates a Section 235 mortgagor because it needs the property for public use, the mortgagor may relocate to another property under the same mortgage. The FHA case number must remain the same for the purpose of paying assistance on the mortgagor’s behalf. 1. The State or local government must NOT pay the first mortgage in full.
2. The mortgagor must agree to transfer the first and second mortgages or first and second deeds of trust to a new property.
3. The mortgagor must amend the first and second mortgages or deeds of trust security instruments to read the legal description of the new property.
4. The new property must be equal in value to the old property.
5. The mortgagee must transfer the Section 235 assistance with the first mortgage or deed of trust to the new property.
6. The amended mortgages or deeds of trust must be executed, dated, and recorded to reflect the transfer of these documents to the new property. 7. The mortgagee must send the recorded, amended second mortgage or deed of trust to the HUD Field Office where it will be filed with the original security instruments.
B. Unable To Transfer Mortgages. If the mortgagor is unable to get the first and second mortgages or first and second deeds of trust on a property transferred to another property of equal value, the State or local government must purchase the property from the mortgagor. The mortgagee must contact the HUD Field Office of the pending sale of the property. The HUD Field Office must take the appropriate steps to satisfy the HUD lien on the property.

11-27 SUBORDINATION OF THE HUD LIEN. If subordination of the HUD lien on a property is in the best interest of the Secretary, the HUD Field Office may approve subordination of a recapture lien in the case of refinancing a first mortgage or securing a Title I loan for
improving the property. The mortgagee must contact the HUD Field Office for details on
subordinating the HUD lien.

11-28 SUMMARY. The appropriate HUD Field Office should be notified if
any one of the following events occurs:
A. The first mortgage on a property has been paid in full through sale of the property.
B. The first mortgage has been assumed by a mortgagor not eligible for assistance or the new
mortgagor does not want to participate in the Section 235 Assistance Program. C. The first
mortgage has been refinanced.
D. The first mortgage has been assigned to HUD. E. The property has been rented for more than
a year. (If more than one unit, the owner’s unit is rented.) F. The assistance has been terminated
after a 36-month suspension.
G. The mortgagor has been relocated or dislocated from a property under circumstances beyond
his/her control.
H. The mortgagor has requested that the HUD lien be subordinated to a lessor position when the
first mortgage is refinanced

Explanations of A through H above.
In A., above, the mortgagor must be notified that the Recapture Provision becomes effective.
In B., above, the mortgagor must be notified that the Recapture Provision becomes effective.
In C. above, the mortgagee refinancing the first mortgage should notify the HUD Field Office if
it (the mortgagee) wants the HUD lien satisfied due to the fact that the HUD lien moves into
first-lien position when the original first mortgage is paid-in-full.
In D. above, if the first mortgage is assigned to HUD, the mortgagor must submit a statement of
the full amount of assistance paid by HUD on behalf of the original mortgagor and all
assumtors of the mortgage to the HUD Field Office. In E. above, the HUD Field Office must
calculate the recapture amount and maintain a file on the case. In F. above, the HUD Field
Office must request a decision from the mortgagor as to whether he/she wants the HUD lien
satisfied after termination of the assistance.
In G., above, there are specific procedures to follow for processing the relocation case. For the
dislocation case, there are special conditions that must be considered to retain the original first
mortgage and Section 235 assistance by transferring both to another property of equal value. In
H., above, there are special conditions under which a Section 235 Recapture mortgage can be
subordinated.

3. Maintenance of Escrow Accounts - Analysis
Formerly HUD Handbook 4330.1, REV -5, Section 2-7E
Mortgages Insured Under Section 235. [HUD’s escrow requirements apply] equally to
mortgages insured under Section 235. With these mortgages, the logical time for escrow
analysis is on or just after the anniversary date of the first payment due under the mortgage since
it is then that the MIP changes and annual recertification is required. Both of these events may
affect the amount of assistance to which the mortgagor is entitled and delays in analysis could
result in a need for significant retroactive adjustments.
Both Formulas I and II must be recomputed as of the anniversary date regardless of changes in escrow requirements. Mortgagors may, however, elect to analyze Section 235 escrow accounts at any time, provided assistance is recomputed at the time of annual recertification to reflect any changes in the mortgagor’s income or family composition, as well as the annual change in MIP. (See Chapter 10 for detailed instructions.)

4. Statement For Income Tax Purposes

Formerly HUD Handbook 4330.1, REV-5, Section 2-10B

By January 30 of each year, the mortgagee must furnish the mortgagor with a statement of taxes and interest paid during the preceding calendar year (24 CFR 203.508©). HUD takes no position on the income tax impact of these amounts.

If the mortgage is insured under Section 235, the statement must also include an accounting of the total amount of assistance paid by HUD and applied to the account during the preceding year (24 CFR 235.1001). This Section 235 Statement may be a part of the escrow accounting or may be in a separate statement accompanying the Income Tax Statement (See Paragraph 10-35B).

The mortgagee may either:
1. report the excess of interest payments over assistance payments during the year, or
2. report both the total interest and assistance payments during the year.

NOTE: This Income Tax Statement must include or be accompanied by a statement which includes substantially the following language:

“If you itemize deductions on your income tax returns, please read this notice. Under Section 1.163-1(d) of Federal Income Tax Regulations, you, as the mortgagor, may deduct for Federal income tax purposes only that part, if any, of mortgage interest payments made during the year that exceeded the amount of assistance payments made by HUD during the year. You are urged to contact your tax advisor or State and local tax offices for guidance regarding the deductibility of payments on your State or local income tax returns."

5. Late Charges

Formerly HUD Handbook 4330.1, REV-5, Section 4-2

When the mortgage is insured under Section 235, OR the mortgage is subject to a buy-down, only the mortgagor’s portion of the monthly payment is used when computing a late charge.

6. Assumptions

Formerly HUD Handbook 4330.1, REV-5, Section 4-4

A. Maximum Allowable Fees. Fees for processing assumptions must be based on the mortgagee’s actual costs and cannot exceed the maximum amount authorized in this Handbook.
1 (See Chapter 6 for requirements concerning assumptions.) The maximum amounts allowed by
2 HUD for processing various types of assumption are as follows:
3 3. Section 235 Assumptions.
4 a. Assumption Without A Release of Liability and Where Assistance Is Requested But
5 Disapproved. Where no credit checks are required and the mortgagor applies for assistance but
6 is not considered eligible for Section 235 subsidy the maximum fee that may be charged is $140.
7 00.
8 b. Assumption Without A Release of Liability and Where Assistance Is Requested and
9 Approved. Where a credit check is not required and the Section 235 subsidy will be terminated,
10 the maximum fee that may be charged is $185. 00.
11 c. Assumption With A Release of Liability and Where Assistance Is Not Requested or
12 Approved. Where a credit check is required and the Section 235 subsidy will be terminated, the
13 maximum fee that may be charged is $500. 00.
14 d. Assumption With A Release of Liability and Assistance Is To Continue. Where a credit
15 check is required and the Section 235 subsidy will continue on behalf of the assumptor, the
16 maximum fee that may be charged is $500.00.
17
18 7. Escrow Balance Returned to Mortgagor
19 Formerly HUD Handbook 4330.1, REV-5, Section 5-2G
20 When the mortgage insurance is terminated without payment of a claim for insurance benefits (i.
21 e., payment in full) the remaining funds held in escrow for the payment of taxes and hazard
22 insurance shall be * released to the mortgagor promptly (i. e., no later than 30 calendar days
23 after the payoff). *
24 EXCEPTION: An analysis must be performed in accordance with Paragraph 10-20D3 on all
25 Section 235 prepayments in full prior to refunding any escrow money to the mortgagors.
26 H. Section 235 Mortgages. In addition to the other requirements cited under Paragraph 5-2, for
27 all Section 235 mortgages that are prepaid in full, the following requirements apply:
28 1. mortgagees must perform an analysis in accordance with Paragraph 10-20D3 prior to
29 refunding any escrow money to the mortgagor as stated in the "Exception" cited in the preceding
30 paragraph; and
31 2. mortgagees must determine in accordance with the instructions outlined in Chapter 11 if the
32 mortgage is insured pursuant to a firm commitment issued after May 27, 1981 as to whether;
33 a. the prepayment has triggered the recapture provision in connection with HUD's Section 235
34 mortgage on the property; and
35 b. the appropriate action has been taken as required by Chapter 11.
36 5-2 Prepayment in Full
37
38 8. Partial Payments
39 Formerly HUD Handbook 4330.1, REV-5, Section 7-9
40 When the mortgage is insured under Section 235, the "full amount due under the mortgage" is
41 considered to be the full amount due from the mortgagor only.
9. SCRA Interest Rate Cap

Formerly Mortgagee Letter 2001-22 The Effect of the Soldiers’ and Sailors’ Civil Relief Act of 1940 on FHA-insured Mortgages

The few remaining Section 235 mortgages still receiving assistance may be affected by the interest rate reduction. Any income recertification requests received from mortgagors must be processed expeditiously. On all accounts receiving assistance where the note rate of interest exceeds six percent, the assistance must be reanalyzed. Since the 1940 Act reduces the interest rate to six percent for the period of active duty, the subsidy must be calculated using the full mortgage payment at that rate when determining the assistance. For some accounts, the interest rate reduction will cause the suspension of assistance for the term of active military duty.

Whenever an interest rate reduction is performed for retroactive effect and the Section 235 assistance is reduced, any over billed subsidy must be returned to the Department by refund or adjustment to the next Section 235 monthly billing. When active duty terminates and the Note rate resumes, the assistance must be recalculated and assistance restored in accordance with the usual procedures.
### APPENDIX II – POST-ENDORSEMENT FEES AND CHARGES BY HOC

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<tr>
<td>Re-analyzing escrow accounts and providing new coupon books</td>
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## Appendix II – Post-Endorsement Fees and Charges by HOC

### Atlanta HOC

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>AL</th>
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<th>KY</th>
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<th>IN</th>
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### Other HOCs

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Post Date: 09/11/2014
## Title II Insured Housing Programs Forward Mortgages

### B. Servicing

#### Appendix II – Post-Endorsement Fees and Charges by HOC

<table>
<thead>
<tr>
<th>Type of Service</th>
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Post Date: 09/11/2014
### Santa Ana HOC

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Post Date: 09/11/2014 254
APPENDIX III – SFDMS REPORTING CODES

APPENDIX III-1 DELINQUENCY/DEFAULT STATUS CODES

General Account Delinquency (AD) – further reporting is required

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
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<tbody>
<tr>
<td>42</td>
<td>Delinquent</td>
<td>The account is delinquent, and there is no other action reportable. This code must be reported as the initial delinquency code.</td>
</tr>
<tr>
<td>24</td>
<td>Government Seizure</td>
<td>There has been a government seizure.</td>
</tr>
<tr>
<td>31</td>
<td>Probate</td>
<td>The property is subject to probate.</td>
</tr>
<tr>
<td>32</td>
<td>Military Indulgence</td>
<td>The mortgagee has granted a delinquent servicemember forbearance or has stayed foreclosure proceedings under the provisions of the Servicemembers Civil Relief Act or any similar state law.</td>
</tr>
<tr>
<td>34</td>
<td>Natural Disaster</td>
<td>The property is in a Presidentially-Declared Major Disaster Area (PDMDA) (as defined by FEMA).</td>
</tr>
<tr>
<td>AS</td>
<td>HUD Foreclosure Moratorium</td>
<td>The foreclosure is on hold at HUD's written direction.</td>
</tr>
<tr>
<td>78</td>
<td>Borrower Program Assistance Received</td>
<td>The Borrower applied for and has been approved for receiving assistance from a state, local, or federal program, such as the Emergency Homeowners Loan Program (EHLP) and the Hardest Hit Fund.</td>
</tr>
</tbody>
</table>

Delinquency Workouts (AL) – further reporting is required

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
</tr>
</thead>
<tbody>
<tr>
<td>06</td>
<td>Formal Forbearance Plan</td>
<td>The Borrower has been approved for a Formal Forbearance.</td>
</tr>
<tr>
<td>08</td>
<td>Trial Payment Plan</td>
<td>The Borrower has been approved for a Trial Payment Plan and is making the required trial payments.</td>
</tr>
<tr>
<td>09</td>
<td>Special Forbearance</td>
<td>The Borrower has been approved for a Special Forbearance (SFB) - Unemployment.</td>
</tr>
<tr>
<td>10</td>
<td>Partial Claim Started</td>
<td>The Borrower has been approved for a Partial Claim.</td>
</tr>
<tr>
<td>11</td>
<td>Promise to Pay</td>
<td>The Borrower advises that the mortgage will be brought current through a one-time payment. This code can only be reported if the mortgage has already been reported as at least 30 Days delinquent.</td>
</tr>
<tr>
<td>12</td>
<td>Repayment/Informal Forbearance Plan</td>
<td>The Borrower has been approved for an Informal Forbearance.</td>
</tr>
</tbody>
</table>
## Title II Insured Housing Programs Forward Mortgages

### B. Servicing

#### Appendix III – SFDSM Reporting Codes

<table>
<thead>
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<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Pre-foreclosure Acceptance Plan Available</td>
<td>The Borrower has been approved to participate in the Pre-foreclosure Sale program.</td>
</tr>
<tr>
<td>26</td>
<td>Refinance Started</td>
<td>The Borrower has been approved for a refinance.</td>
</tr>
<tr>
<td>28</td>
<td>Modification Started</td>
<td>The Borrower has been approved for a Loan Modification.</td>
</tr>
<tr>
<td>36</td>
<td>FHA-HAMP Standalone Partial Claim Started</td>
<td>The Borrower has been approved for an FHA-HAMP standalone Partial Claim, after successful completion of the Trial Payment Plan.</td>
</tr>
<tr>
<td>37</td>
<td>FHA-HAMP Standalone Modification Started</td>
<td>The Borrower has been approved for an FHA-HAMP standalone Loan Modification, after successful completion of the Trial Payment Plan.</td>
</tr>
<tr>
<td>39</td>
<td>FHA-HAMP Trial Payment Plan</td>
<td>The Borrower has been approved for a Trial Payment Plan under FHA-HAMP.</td>
</tr>
<tr>
<td>41</td>
<td>FHA-HAMP Modification/Partial Claim Started</td>
<td>The Borrower has been approved for an FHA-HAMP Loan Modification and Partial Claim, after successful completion of the Trial Payment Plan.</td>
</tr>
<tr>
<td>44</td>
<td>Deed-in-Lieu (DIL) Started</td>
<td>The Borrower has been approved for a DIL and processing has begun.</td>
</tr>
<tr>
<td>3B</td>
<td>Prequalified for 601</td>
<td>The case meets criteria for an Accelerated Claim.</td>
</tr>
<tr>
<td>AA</td>
<td>Complete Financials Received and In Review</td>
<td>The mortgagee has received complete financial information from the Borrower and review for placement into an appropriate loss mitigation tool has begun.</td>
</tr>
<tr>
<td>AH</td>
<td>Streamlined Financials Received and In Review</td>
<td>The mortgagee has received streamlined financial information from the Borrower and review for final approval has begun.</td>
</tr>
<tr>
<td>AQ</td>
<td>Option Failure</td>
<td>The Borrower has failed to perform under the terms of the Loss Mitigation Option utilized by mortgagee.</td>
</tr>
</tbody>
</table>

### Ineligible for Loss Mitigation (AI) – further reporting is required

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
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</thead>
<tbody>
<tr>
<td>AO</td>
<td>Ineligible for Loss Mitigation</td>
<td>The mortgagee either has completed loss mitigation evaluation (24 CFR § 203.605) and the Borrower has been found to be ineligible, or the Borrower is eligible but declines the Loss Mitigation Option offered.</td>
</tr>
<tr>
<td>AP</td>
<td>Ineligible for Loss Mitigation Due to No Response</td>
<td>The Borrower is ineligible for any loss mitigation relief because the Borrower has not responded to any collection efforts and/or solicitations for loss mitigation.</td>
</tr>
</tbody>
</table>

### Account in Foreclosure (AF) – further reporting is required

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
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### Status Code Definitions

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<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
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</thead>
<tbody>
<tr>
<td>95</td>
<td>State Mandated Delay and/or Mediation</td>
<td>Foreclosure cannot be initiated or the foreclosure process is on hold due to a state mandated delay, a state law change, or the mortgage has been referred to mediation. Please note, this may be reported before the status code 68 as applicable.</td>
</tr>
<tr>
<td>68</td>
<td>First Legal Action to Commence Foreclosure</td>
<td>The first public legal action required to initiate foreclosure was completed.</td>
</tr>
<tr>
<td>33</td>
<td>Contested Foreclosure</td>
<td>Foreclosure is placed on hold due to Borrower contesting the foreclosure.</td>
</tr>
<tr>
<td>1A</td>
<td>Foreclosure Sale Held</td>
<td>The foreclosure sale was held.</td>
</tr>
<tr>
<td>1E</td>
<td>Eviction Started</td>
<td>The first public action to initiate eviction was taken.</td>
</tr>
</tbody>
</table>

### Account in Bankruptcy (AB) – further reporting is required

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
</tr>
</thead>
<tbody>
<tr>
<td>65</td>
<td>Chapter 7 Bankruptcy</td>
<td>The Borrower filed petition of bankruptcy under Chapter 7.</td>
</tr>
<tr>
<td>66</td>
<td>Chapter 11 Bankruptcy</td>
<td>The Borrower filed petition of bankruptcy under Chapter 11.</td>
</tr>
<tr>
<td>67</td>
<td>Chapter 13 Bankruptcy</td>
<td>The Borrower filed petition of bankruptcy under Chapter 13.</td>
</tr>
<tr>
<td>59</td>
<td>Chapter 12 Bankruptcy</td>
<td>The Borrower filed petition of bankruptcy under Chapter 12.</td>
</tr>
<tr>
<td>69</td>
<td>Bankruptcy Plan Confirmed</td>
<td>Bankruptcy court confirmed the bankruptcy plan.</td>
</tr>
<tr>
<td>76</td>
<td>Bankruptcy Court Clearance Obtained</td>
<td>Bankruptcy is no longer a bar to foreclosure.</td>
</tr>
</tbody>
</table>

### Account Reinstated (AR) – reporting on this case is concluded, unless it returns to a delinquency status

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Reinstated by Borrower Who Retains Homeownersh</td>
<td>The Borrower reinstated delinquency without use of Loss Mitigation, an informal or Forma Forbearance/repayment plan, borrower assistance, or a promise to pay.</td>
</tr>
<tr>
<td>21</td>
<td>Reinstated by Assumptor</td>
<td>Mortgage reinstated by an assumptor.</td>
</tr>
</tbody>
</table>
| 98          | Reinstated after Loss Mitigation Intervention    | The Borrower reinstated delinquency with the benefit of Loss Mitigation, which includes the use of:  
  - Military Indulgence (Status Code 32)  
  - Borrower Assistance (Status Code 78)  
  - Any of the applicable Home Retention Status Codes listed in the Delinquency Workout (AL) summary code block. |
II. Title II Insured Housing Programs Forward Mortgages
B. Servicing

Appendix III – SFDMS Reporting Codes

### Claim Termination of Insurance (CT) – reporting on this case is concluded

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Pre-foreclosure Sale Completed</td>
<td>Pre-foreclosure sale has been held.</td>
</tr>
<tr>
<td>46</td>
<td>Property Conveyed to Insurer</td>
<td>Property was conveyed to HUD (the insurer).</td>
</tr>
<tr>
<td>47</td>
<td>Deed-in-Lieu (DIL) Completed &amp; Property Conveyed</td>
<td>DIL of foreclosure was completed and the property conveyed to HUD.</td>
</tr>
<tr>
<td>48</td>
<td>Claim without Conveyance of Title</td>
<td>A third party purchased the property at foreclosure where HUD authorized the use of the Claim without Conveyance of Title procedure.</td>
</tr>
<tr>
<td>49</td>
<td>Assignment Completed</td>
<td>An assignment was completed for an Accelerated Claims Disposition (ACD), Section 247 or Section 248 case.</td>
</tr>
</tbody>
</table>

### Non-Claim Termination of Insurance (NC) – reporting on this case is concluded

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Paid in Full</td>
<td>The mortgage has been paid in full.</td>
</tr>
<tr>
<td>29</td>
<td>Charge-off</td>
<td>The mortgagee has charged off part of the funds that would have paid the account in full. No claim will be filed with HUD.</td>
</tr>
<tr>
<td>30</td>
<td>Third Party Sale</td>
<td>The foreclosure was held, but a third party paid the indebtedness in full. No claim will be filed with HUD.</td>
</tr>
<tr>
<td>73</td>
<td>Property Redeemed</td>
<td>According to state law requirements the borrower redeemed the property after the foreclosure sale. The loan is paid in full and no claim will be filed with HUD.</td>
</tr>
</tbody>
</table>

### Account Cancel (AC) - Case Reported in Error – further reporting requirements are based on the reporting requirements of the last correctly reported Default Status Code.

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Cancel</td>
<td>The last status code was reported in error. Required when an incorrect default status code under summary codes AR, CT, or NC is reported, as codes under these summary codes would have closed the default episode. Reporting the 25 “re-opens” the episode closed in error, allowing further reporting.</td>
</tr>
</tbody>
</table>
## List of Codes Removed from Use

<table>
<thead>
<tr>
<th>Status Code</th>
<th>Definition</th>
<th>Guidance for Usage: Use selected code to advise HUD that…</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Current</td>
<td>Removed from approved list effective 9/30/1997.</td>
</tr>
<tr>
<td>19</td>
<td>Partial Reinstatement</td>
<td>Removed from approved list effective 10/31/2006.</td>
</tr>
<tr>
<td>39</td>
<td>Pre-Claim Enrolled</td>
<td>Removed from approved list effective 10/31/2006; repurposed as FHA HAMP Trial Plan.</td>
</tr>
<tr>
<td>41</td>
<td>Supplemental Pre-Claim</td>
<td>Removed from approved list effective 10/31/2006; repurposed as FHA HAMP Modification Started.</td>
</tr>
<tr>
<td>43</td>
<td>Foreclosure Started</td>
<td>Removed from approved list effective 10/31/2006.</td>
</tr>
<tr>
<td>45</td>
<td>Foreclosure Completed</td>
<td>Removed from approved list effective 10/31/2006.</td>
</tr>
<tr>
<td>77</td>
<td>Foreclosure Deed Recorded</td>
<td>Remove from approved list effective 11/9/2013.</td>
</tr>
<tr>
<td>1G</td>
<td>Eviction Completed</td>
<td>Remove from approved list effective 11/9/2013.</td>
</tr>
<tr>
<td>22</td>
<td>Servicing Transferred or Sold to Another Mortgagee</td>
<td>Remove from approved list effective 11/9/2013.</td>
</tr>
</tbody>
</table>
## APPENDIX III-2 DELINQUENCY/DEFAULT REASON CODES

<table>
<thead>
<tr>
<th>Default Reason Code</th>
<th>Cause of Default</th>
<th>Guidance For Usage: Use selected code to indicate that…</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Death of Principal Borrower</td>
<td>The delinquency is attributable to the death of the principal Borrower.</td>
</tr>
<tr>
<td>02</td>
<td>Illness of Principal Borrower</td>
<td>The delinquency is attributable to a prolonged illness that keeps the principal Borrower from working and generating income.</td>
</tr>
<tr>
<td>03</td>
<td>Illness of Borrower's Family Member</td>
<td>The delinquency is attributable to the principal Borrower having incurred extraordinary expenses as the result of the illness of a Family Member or having taken on the sole responsibility for repayment of the mortgage debt as the result of the co-Borrower’s illness.</td>
</tr>
<tr>
<td>04</td>
<td>Death of Borrower's Family Member</td>
<td>The delinquency is attributable to the principal Borrower having incurred extraordinary expenses as the result of the death of a Family Member or having taken on the sole responsibility for repayment of the mortgage debt as the result of the co-Borrower’s death.</td>
</tr>
<tr>
<td>05</td>
<td>Marital Difficulties</td>
<td>The delinquency is attributable to problems associated with a separation or divorce, such as a dispute over ownership of the property, a decision not to make payments until the divorce settlement is finalized, or a reduction in the income to repay the mortgage debt.</td>
</tr>
<tr>
<td>06</td>
<td>Curtailment of Income</td>
<td>The delinquency is attributable to a reduction in the Borrower’s income, such as a garnishment of wages, a change to a lower paying job, reduced commissions or overtime pay, or loss of a part-time job.</td>
</tr>
<tr>
<td>07</td>
<td>Excessive Obligations - Same Income, Including Habitual Nonpayment of Debts</td>
<td>The delinquency is attributable to the Borrower having incurred excessive debts (either in a single instance or as a matter of habit) that prevent them from making payments on both those debts and the mortgage debt.</td>
</tr>
<tr>
<td>08</td>
<td>Abandonment of Property</td>
<td>The delinquency is attributable to the Borrower having abandoned the property for reasons that are not known by the servicer (because the servicer has not been able to locate the Borrower).</td>
</tr>
<tr>
<td>09</td>
<td>Distant Employment Transfer</td>
<td>The delinquency is attributable to the principal Borrower being transferred or relocated to a distant job location and incurring additional expenses for moving and housing in the new location, affecting their ability to pay both those expenses and the mortgage debt.</td>
</tr>
<tr>
<td>Default Reason Code</td>
<td>Cause of Default</td>
<td>Guidance For Usage: Use selected code to indicate that…</td>
</tr>
<tr>
<td>---------------------</td>
<td>----------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>11</td>
<td>Property Problem</td>
<td>The delinquency is attributable to the condition of the property’s improvements (substandard construction, expensive and extensive repairs needed, etc. requiring due of funds that would have been available for the Mortgage Payment) or to the Borrower’s dissatisfaction with the property or neighborhood.</td>
</tr>
<tr>
<td>12</td>
<td>Inability to Sell Property</td>
<td>The delinquency is attributable to an employment-related transfer.</td>
</tr>
<tr>
<td>13</td>
<td>Inability to Rent Property</td>
<td>The delinquency is attributable to Borrower needing Rental Income to make the Mortgage Payments and having difficulty in finding a tenant following an employment-related transfer.</td>
</tr>
<tr>
<td>14</td>
<td>Military Service</td>
<td>The delinquency is attributable to the principal Borrower having entered Active Duty status and their military pay is insufficient to enable the continued payment of the existing mortgage debt.</td>
</tr>
<tr>
<td>15</td>
<td>Other</td>
<td>Should be rarely used - additional reason codes at the request of the industry have been added; indicates that the delinquency is attributable to reasons that are not otherwise included in the list.</td>
</tr>
<tr>
<td>16</td>
<td>Unemployment</td>
<td>The delinquency is attributable to a reduction in income resulting from the principal Borrower having lost their job.</td>
</tr>
<tr>
<td>17</td>
<td>Business Failure</td>
<td>The delinquency is attributable to a self-employed principal Borrower having a reduction in income and/or excessive obligations that are the direct result of the failure of their business to remain a viable Entity or, at least, to generate sufficient profit that the Borrower can rely on to meet their personal obligations.</td>
</tr>
<tr>
<td>19</td>
<td>Casualty Loss</td>
<td>The delinquency is attributable to the Borrower having incurred a sudden, unexpected property loss as the result of an accident, fire, storm, theft, earthquake, etc.</td>
</tr>
<tr>
<td>22</td>
<td>Energy-Environment Cost</td>
<td>All other factors remained the same, but funds that would have been available for the Mortgage Payment have been used for sharp increases in utility costs or costs associated with the removal of environmental hazards in or near the property.</td>
</tr>
<tr>
<td>23</td>
<td>Servicing Problems</td>
<td>The delinquency is attributable to the Borrower being dissatisfied with the way the mortgage servicer is servicing the mortgage or with the fact that the servicing of the mortgage has been transferred to a new mortgage servicer.</td>
</tr>
<tr>
<td>Default Reason Code</td>
<td>Cause of Default</td>
<td>Guidance For Usage: Use selected code to indicate that…</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>26</td>
<td>Payment Adjustment</td>
<td>The delinquency began after either an increase in Principal and Interest (P&amp;I) for an ARM or after an escrow analysis where one or more escrow item increased, including the spreading of the amount needed to repay an escrow shortage over the next year.</td>
</tr>
<tr>
<td>27</td>
<td>Payment Dispute</td>
<td>The delinquency is attributable to a disagreement between the Borrower and the mortgage servicer about the amount of the Mortgage Payment, the acceptance of a partial payment, or the application of previous payments, resulting in the Borrower's refusal to make payments until the dispute is resolved.</td>
</tr>
<tr>
<td>29</td>
<td>Transfer of Ownership Pending</td>
<td>The delinquency is attributable to the Borrower having agreed to sell the property and deciding not to make any additional payments.</td>
</tr>
<tr>
<td>30</td>
<td>Fraud</td>
<td>The delinquency is attributable to a legal dispute arising out of a fraudulent or illegal action that occurred after or in connection with the origination of the mortgage.</td>
</tr>
<tr>
<td>31</td>
<td>Unable to Contact Borrower</td>
<td>For use with 30 and 60 Day delinquencies where contact with the Borrower has not yielded a response; should be used rarely for any 90 Day or more delinquency. Indicates that the reason for delinquency cannot be ascertained because the Borrower cannot be located or has not responded to the servicer’s inquiries.</td>
</tr>
<tr>
<td>INC</td>
<td>Incarceration</td>
<td>The delinquency is attributable to the principal Borrower having been jailed or imprisoned (regardless of whether they are still incarcerated).</td>
</tr>
</tbody>
</table>
APPENDIX IV— HUD SCHEDULE OF STANDARD ATTORNEY FEES

<table>
<thead>
<tr>
<th>State</th>
<th>Non-judicial Foreclosure</th>
<th>Judicial Foreclosure</th>
<th>Bankruptcy Clearance</th>
<th>Possessory Action</th>
<th>Deed-in-Lieu</th>
</tr>
</thead>
<tbody>
<tr>
<td>AK</td>
<td>$1,250</td>
<td></td>
<td>$375</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>AL</td>
<td>$900&lt;sup&gt;1&lt;/sup&gt;</td>
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<tr>
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<tr>
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<tr>
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<td>$400</td>
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</tr>
<tr>
<td>FL</td>
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<tr>
<td>GA</td>
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<tr>
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<td>MA</td>
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<td>$375</td>
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</tr>
<tr>
<td>ME</td>
<td>$1,750</td>
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<td>$525</td>
<td>$400</td>
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</tr>
<tr>
<td>MI</td>
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<td>$325</td>
<td>$400</td>
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<td>MN</td>
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<td>$325</td>
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<td>$400</td>
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<td>NY</td>
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<tr>
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<tr>
<td>OK</td>
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<td></td>
<td>$275</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>OR</td>
<td>$1,000</td>
<td>$2,050</td>
<td>$375</td>
<td>$400</td>
<td></td>
</tr>
</tbody>
</table>
II. Title II Insured Housing Programs Forward Mortgages

B. Servicing

Appendix IV – HUD Schedule of Standard Attorney Fees

<table>
<thead>
<tr>
<th>State</th>
<th>Non-judicial Foreclosure</th>
<th>Judicial Foreclosure</th>
<th>Bankruptcy Clearance</th>
<th>Possessory Action</th>
<th>Deed-in-Lieu</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA</td>
<td>$1,650¹¹</td>
<td>Varies¹²</td>
<td>$425</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>PR</td>
<td>$1,500¹¹</td>
<td>Varies¹²</td>
<td>$300</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>RI</td>
<td>$1,300</td>
<td>Varies¹²</td>
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<td>$400</td>
<td></td>
</tr>
<tr>
<td>SC</td>
<td>$1,650</td>
<td>Varies¹²</td>
<td>$375</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>SD</td>
<td>$600</td>
<td>Varies¹²</td>
<td>$325</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>TN</td>
<td>$900¹</td>
<td>Varies¹²</td>
<td>$375</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>TX</td>
<td>$900</td>
<td>Varies¹²</td>
<td>$325</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>UT</td>
<td>$925</td>
<td>$925</td>
<td>Varies¹²</td>
<td>$275</td>
<td>$400</td>
</tr>
<tr>
<td>VA</td>
<td>$925¹³</td>
<td>Varies¹²</td>
<td>$375</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>VI</td>
<td>$1,800</td>
<td>Varies¹²</td>
<td>$300</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>VT</td>
<td>$1,700</td>
<td>Varies¹²</td>
<td>$375</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>WA</td>
<td>$1,000</td>
<td>Varies¹²</td>
<td>$375</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>WI</td>
<td>$1,500</td>
<td>Varies¹²</td>
<td>$325</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>WV</td>
<td>$1,000¹⁻³</td>
<td>Varies¹²</td>
<td>$375</td>
<td>$400</td>
<td></td>
</tr>
<tr>
<td>WY</td>
<td>$1,000</td>
<td>Varies¹²</td>
<td>$375</td>
<td>$400</td>
<td></td>
</tr>
</tbody>
</table>

Footnotes:

1. The fee covers the combined attorney and notary’s fees.
2. The fee applies to strict foreclosures. If the foreclosure orders a Foreclosure by Sale, the fee will be $1,950.
3. The fee covers both the attorney fee and the trustee’s commission (or statutory fee).
4. The fee increases by $100 if foreclosure is achieved by summary judgment.
5. In addition to the allowable foreclosure fee, an auctioneer’s fee of up to $250 is allowed for the services of a state-licensed auctioneer requested by the mortgagee and approved by the court.
6. The fee increases to $1,100 for a non-judicial foreclosure for a case in which the attorney provides services for “proceedings subsequent” that involve registered land.
7. The fee includes the notary’s fee. An additional fee of $250 is allowed for an attorney court appearance for a foreclosure hearing.
8. This fee relates to the exercise of the power of sale under a deed of trust.
9. This fee applies to foreclosures other than those conducted in New York City and Long Island. A fee of $2,400 applies to foreclosures conducted in the five boroughs of New York City (Bronx, Brooklyn/Kings, Manhattan, Queens, and Staten Island) and in Long Island (Nassau and Suffolk Counties).
10. The fee covers certain additional legal actions necessary to complete the foreclosure, including motions to postpone or relist a sale and motions to reassess damages.
11. In addition to the allowable foreclosure fee, $150 is allowed for a notary fee for completed foreclosures. However, if a deed of judicial sale cannot be executed simultaneously with the foreclosure sale, $300 is allowed for the notary fee.
12. This fee assumes that all required procedural steps have been completed. The maximum attorney fee varies based on the chapter under which the bankruptcy action is filed.
   - For Chapter 7 bankruptcies, the maximum allowable fee is $650.
   - For Chapter 11, 12 and 13 bankruptcies, the maximum allowable fee is $1,000
## APPENDIX V FIRST LEGAL ACTIONS TO INITIATE FORECLOSURE AND REASONABLE DILIGENCE TIMEFRAMES

<table>
<thead>
<tr>
<th>State Code</th>
<th>State</th>
<th>Type of Security Instrument</th>
<th>Normal Method of Foreclosure</th>
<th>First Legal Action to Initiate Foreclosure</th>
<th>Reasonable Diligence Timeframe (in months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Alabama</td>
<td>Mortgage</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>11</td>
<td>Alaska</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Default</td>
<td>--</td>
</tr>
<tr>
<td>02</td>
<td>Arizona</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Sale</td>
<td>--</td>
</tr>
<tr>
<td>03</td>
<td>Arkansas</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Sale</td>
<td>--</td>
</tr>
<tr>
<td>04</td>
<td>California</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Default</td>
<td>--</td>
</tr>
<tr>
<td>05</td>
<td>Colorado</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Filing of Foreclosure Documents with Public Trustee</td>
<td>--</td>
</tr>
<tr>
<td>06</td>
<td>Connecticut</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>07</td>
<td>Delaware</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>08</td>
<td>District of Columbia</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Notice of Default to Mayor</td>
<td>--</td>
</tr>
<tr>
<td>09</td>
<td>Florida</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>10</td>
<td>Georgia</td>
<td>Security Deed</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>83</td>
<td>Guam</td>
<td>Mortgage</td>
<td>Non-Judicial</td>
<td>Posting and Publishing of Notice of Sale</td>
<td>--</td>
</tr>
<tr>
<td>14</td>
<td>Hawaii</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>12</td>
<td>Idaho</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Default</td>
<td>--</td>
</tr>
<tr>
<td>13</td>
<td>Illinois</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>15</td>
<td>Indiana</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>16</td>
<td>Iowa</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Petition</td>
<td>--</td>
</tr>
</tbody>
</table>

1 Reasonable Diligence Timeframes are pending and under construction.
### FHA Single Family Housing Policy Handbook

II. Title II Insured Housing Programs Forward Mortgages  
B. Servicing  

**Appendix V – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Timeframes**

<table>
<thead>
<tr>
<th>State Code</th>
<th>State</th>
<th>Typical Type of HUD Security Instrument</th>
<th>Normal Method of Foreclosure</th>
<th>First Legal Action to Initiate Foreclosure</th>
<th>Reasonable Diligence Timeframe (in months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Kansas</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Filing of Notice or Voluntary Foreclosure Agreement with Recorder</td>
<td>--</td>
</tr>
<tr>
<td>20</td>
<td>Kentucky</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>22</td>
<td>Louisiana</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Petition for Executory Process</td>
<td>--</td>
</tr>
<tr>
<td>23</td>
<td>Maine</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>24</td>
<td>Maryland</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>25</td>
<td>Massachusetts</td>
<td>Mortgage</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Filing an Order to Docket</td>
<td>--</td>
</tr>
<tr>
<td>26</td>
<td>Michigan</td>
<td>Mortgage</td>
<td>Non-Judicial</td>
<td>Filing of Complaint</td>
<td>--</td>
</tr>
<tr>
<td>27</td>
<td>Minnesota</td>
<td>Mortgage Deed</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>28</td>
<td>Mississippi</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>29</td>
<td>Missouri</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>31</td>
<td>Montana</td>
<td>Trust Indenture</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Sale</td>
<td>--</td>
</tr>
<tr>
<td>32</td>
<td>Nebraska</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Petition</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>33</td>
<td>Nevada</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Default</td>
<td>--</td>
</tr>
<tr>
<td>34</td>
<td>New Hampshire</td>
<td>Mortgage</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>35</td>
<td>New Jersey</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>36</td>
<td>New Mexico</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>37</td>
<td>New York</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>38</td>
<td>North Carolina</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Notice of Hearing</td>
<td>--</td>
</tr>
</tbody>
</table>

---

2 The mortgagee must first obtain a judgment from the Land Court verifying that the mortgagors are not entitled to relief under the Servicemembers Civil Relief Act (SCRA).
## Appendix V – First Legal Actions to Initiate Foreclosure and Reasonable Diligence Timeframes

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>North Dakota</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>41</td>
<td>Ohio</td>
<td>Mortgage Deed</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>42</td>
<td>Oklahoma</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Petition</td>
<td>--</td>
</tr>
<tr>
<td>43</td>
<td>Oregon</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Default</td>
<td>--</td>
</tr>
<tr>
<td>44</td>
<td>Pennsylvania</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
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<tr>
<td>50</td>
<td>Puerto Rico</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>45</td>
<td>Rhode Island</td>
<td>Mortgage</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>46</td>
<td>South Carolina</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>47</td>
<td>South Dakota</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Publication of Notice of Sale</td>
<td>--</td>
</tr>
<tr>
<td>48</td>
<td>Tennessee</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>49</td>
<td>Texas</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Posting and Filing of the Notice of Sale</td>
<td>--</td>
</tr>
<tr>
<td>52</td>
<td>Utah</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Default</td>
<td>--</td>
</tr>
<tr>
<td>53</td>
<td>Vermont</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>54</td>
<td>Virginia</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>56</td>
<td>Washington</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Recording of Notice of Trustee’s Sale</td>
<td>--</td>
</tr>
<tr>
<td>57</td>
<td>West Virginia</td>
<td>Deed of Trust</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
<tr>
<td>58</td>
<td>Wisconsin</td>
<td>Mortgage</td>
<td>Judicial</td>
<td>Complaint</td>
<td>--</td>
</tr>
<tr>
<td>59</td>
<td>Wyoming</td>
<td>Mortgage</td>
<td>Non-Judicial</td>
<td>Publication</td>
<td>--</td>
</tr>
</tbody>
</table>
### APPENDIX VI - MAXIMUM PROPERTY PRESERVATION ALLOWANCES

<table>
<thead>
<tr>
<th>Description of Service</th>
<th>Maximum Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property Inspections</strong></td>
<td></td>
</tr>
<tr>
<td>Property Inspections</td>
<td>$30 per unit; $15 additional unit</td>
</tr>
<tr>
<td>Subsequent inspection (as req’d.)</td>
<td>$20 per unit; $15 additional unit</td>
</tr>
<tr>
<td>Permit &amp; Vacant property registration</td>
<td>$250</td>
</tr>
<tr>
<td><strong>Securing</strong></td>
<td></td>
</tr>
<tr>
<td>Initial securing of property</td>
<td>$60 per lock-set &amp; $40 per pad lock</td>
</tr>
<tr>
<td>Re-glazing window (replacing a window pane)</td>
<td>$30</td>
</tr>
<tr>
<td>Re-securing/rekeying of property</td>
<td>$0</td>
</tr>
<tr>
<td>Roof repair</td>
<td>$600 (FHA does not tarp)</td>
</tr>
<tr>
<td>Securing in-ground swimming pools</td>
<td>$1,050</td>
</tr>
<tr>
<td>Securing above-ground swimming pools</td>
<td>$400</td>
</tr>
<tr>
<td>Securing hot tubs &amp; spas</td>
<td>$50</td>
</tr>
<tr>
<td>Maintenance of pools, spas &amp; hot tubs</td>
<td>$100 monthly</td>
</tr>
<tr>
<td><strong>Boarding</strong></td>
<td></td>
</tr>
<tr>
<td>Windows with 1/2&quot; plywood or equivalent</td>
<td>$80 per window; $550 max for all windows</td>
</tr>
<tr>
<td>Doors with 5/8&quot; plywood or equivalent</td>
<td>$150 per opening; $300</td>
</tr>
<tr>
<td>Other openings with 3/4&quot; plywood or equivalent</td>
<td>$125 per opening maximum</td>
</tr>
<tr>
<td><strong>Debris/Trash Removal/Dumping fees</strong></td>
<td></td>
</tr>
<tr>
<td>Amount per cubic yard of trash</td>
<td>$50</td>
</tr>
<tr>
<td>Maximum allowable for 1 unit</td>
<td>$600 (minimum load of 12 cu. yds of waste)</td>
</tr>
<tr>
<td>Maximum allowable for 2 units</td>
<td>$750 (minimum load of 15 cu. yds of waste)</td>
</tr>
<tr>
<td>Maximum allowable for 3 units</td>
<td>$900 (minimum load of 18 cu. yds of waste)</td>
</tr>
<tr>
<td>Maximum allowable for 4 units</td>
<td>$1,050 (minimum load of 21 cu. yds of waste)</td>
</tr>
<tr>
<td>Vehicle removal</td>
<td>$210 per vehicle</td>
</tr>
<tr>
<td><strong>Yard Maintenance</strong></td>
<td></td>
</tr>
<tr>
<td>Initial cut up to 5,000 sf.</td>
<td>$50</td>
</tr>
<tr>
<td>Initial cut 5,001 - 10,000 sf.</td>
<td>$75</td>
</tr>
<tr>
<td>Initial cut 10,001 -15,000 sf.</td>
<td>$100</td>
</tr>
<tr>
<td>Re-cut up to 5,000 sf.</td>
<td>$40</td>
</tr>
<tr>
<td>Re-cut 5,001 - 10,000 sf.</td>
<td>$65</td>
</tr>
<tr>
<td>Re-cut 10,001 - 15,000 sf.</td>
<td>$85</td>
</tr>
<tr>
<td>Shrub Trimming</td>
<td>$30 per site</td>
</tr>
<tr>
<td><strong>Hazard Abatement</strong></td>
<td></td>
</tr>
<tr>
<td>Snow/ice removal</td>
<td>$50</td>
</tr>
<tr>
<td>Sump pump repair</td>
<td>$50</td>
</tr>
</tbody>
</table>
### Description of Service

<table>
<thead>
<tr>
<th>Description of Service</th>
<th>Maximum Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sump pump installation</td>
<td>$300</td>
</tr>
<tr>
<td>Water heater/well/septic/HVAC repair</td>
<td>$300</td>
</tr>
<tr>
<td>Pumping water from basement</td>
<td>$1,000</td>
</tr>
<tr>
<td>Demolition (excluded from the max allowable per property)</td>
<td>Up to $10,000 (single story)</td>
</tr>
<tr>
<td></td>
<td>Up to $12,500 (multi-story)</td>
</tr>
<tr>
<td><strong>Winterization</strong></td>
<td></td>
</tr>
<tr>
<td>Dry heat - 1 unit</td>
<td>$100</td>
</tr>
<tr>
<td>Dry heat - additional unit</td>
<td>$50</td>
</tr>
<tr>
<td>Wet (steam) heat - 1 unit</td>
<td>$150</td>
</tr>
<tr>
<td>Wet (steam) heat – additional unit</td>
<td>$90</td>
</tr>
<tr>
<td>Wet (radiant) heat - 1 unit</td>
<td>$250</td>
</tr>
<tr>
<td>Wet (radiant) heat - additional unit</td>
<td>$125</td>
</tr>
<tr>
<td>Reduced Pressure Zone (RPZ) valves</td>
<td>$150 (if state or locally req’d.)</td>
</tr>
<tr>
<td>Pools, spas, &amp; hot tubs</td>
<td>$200 (if state or locally req’d.)</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td></td>
</tr>
<tr>
<td>Electricity, gas, oil, propane, water &amp; sewer</td>
<td>$75 (for one-time shut off/transfer fee)</td>
</tr>
</tbody>
</table>

| Maximum Allowance Per Property | $________ |

---

Post Date: 09/11/2014
FHA Single Family Housing Policy Handbook

GLOSSARY

30-Day Advance Prepayment Notice Period
The 30-Day Advance Prepayment Notice Period refers to the time requirement for the Borrower to provide advance notice to the mortgagee for prepayment of an FHA-insured mortgage insured prior to August 2, 1985.

Acquisition Cost
The Acquisition Cost is the purchase price the seller paid for the property, including closing costs, prepaid costs, and commissions, if paid by the seller, but not including the cost of any repairs that the seller makes to the property.

Active Duty
Active Duty refers to a status where a person has a full-time military occupation.

Adjustable Rate Mortgage
An Adjustable Rate Mortgage (ARM) refers to a mortgage in which the interest rate can change annually based on an index plus a margin.

Alimony, Child Support, or Maintenance Income
Alimony, Child Support, or Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependent.

Appropriate HOC
The appropriate HOC jurisdiction is determined by the location of the property securing the FHA mortgage.

Arm's Length Transaction
An Arm's Length Transaction refers to a transaction between unrelated parties who are each acting in his or her own best interest.

Authorized Third Party
Authorized Third Parties are parties who are not Borrowers on the mortgage and who have obtained and provided to the mortgagee authorization from the Borrowers to communicate with mortgagees regarding their mortgage.

Base Loan Amount
The Base Loan Amount is the mortgage amount prior to the addition of any financed up-front mortgage insurance premium. Unless otherwise stated in this guide, all references to maximum mortgage amount or mortgage amount shall refer to the Base Loan Amount.

Borrower
Borrower refers to each and every Borrower on the loan application.
Broom-swept Condition
Broom-swept condition is the condition of a property that is free of dust, dirt, hazardous materials or conditions, personal belongings and interior and exterior debris.

Change Date
The Change Date is the effective date of an adjustment to the interest rate, as shown in Paragraph 5(a) of the model Adjustable Rate Note form.

Conformed Copy
A Conformed Copy is a copy that agrees with the original and all amendments to it.

Days
Days refer to calendar days.

Delinquent Mortgages
Delinquent Mortgages are mortgages that were reported as 90 or more days delinquent as of the date of the last system refresh.

Disbursement Date
The Disbursement Date is the date the proceeds of the mortgage are made available to the borrower.

Early Payment Defaults (EPD)
Early Payment Defaults refer to mortgages that become 60 days delinquent within the first six payments.

Employment Income
Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2.

Entity
Entity refers to a business entity such as a corporation, trust, partnership, or sole proprietorship.

Executed SFB-Unemployment Agreement
The SFB-Unemployment Agreement is considered “executed” when:
• at least one of the Borrowers has signed and dated the agreement;
• the agreement has been returned to the mortgagee; and
• the authorized mortgagee representative has signed and dated the agreement as well.

Family Member
For the purpose of determining whether there is an identity-of-interest, the definition of family member includes, but is not limited to, the following, regardless of actual or perceived sexual orientation, gender identity, or marital status:
• child, parent, or grandparent
Glossary and Acronyms

- A child is defined as a son, stepson, daughter, or stepdaughter.
- A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent.
  - spouse
  - legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption
  - foster child
  - brother, stepbrother
  - sister, stepsister
  - uncle
  - aunt, or

**Fee Simple**
Fee Simple refers to an absolute ownership unencumbered by any other interest or estate.

**Finding**
Finding refers to a final determination of defect by the mortgagee.

**Formal Forbearance**
A Formal Forbearance is a written agreement with a forbearance period greater than three months.

**Ground Rent**
Ground Rent refers to the rent paid for the right to use and occupy the land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.

**Housing Obligation/Mortgage Payment**
A Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or properties owned.

**Indian Land**
Indian Land refers to those lands that are held by or for the benefit of Indian Tribes under some restriction or with some attribute peculiar to the legal status of its owners.

**Indian Tribe**
Indian Tribe refers to any Indian or Alaskan native tribe, band, nation, or other organized group or community of Indians or Alaskan natives recognized as eligible for the services provided to Indians or Alaskan natives by the Secretary of Interior because of its status as such an entity, or that was an eligible recipient under Chapter 67 of title 31, United States Code, prior to the repeal of this section.

**Informal Forbearance**
An Informal Forbearance is an oral agreement effective for a period of three months or less.
**Installment Due Date**
The Installment Due Date is the first day of the month, as provided for in the security instrument.

**Investor**
Investor refers to a Borrower(s) that will not occupy the home as a principal or secondary residence (non-owner occupant).

**Leasehold**
Leasehold refers to the right to hold or use property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.

**Loan Modification**
A Loan Modification is a permanent change in one or more terms of a Borrower’s loan to allow the loan to be reinstated by establishing an affordable monthly payment when the cause of the default is permanent or long term. A Loan Modification may include a change within the following:
- interest rate;
- capitalization of delinquent principal, interest or escrow items;
- extension of time available to repay the loan; and/or
- re-amortization of the balance due.

**Loan-to-Value (LTV)**
The LTV is computed as the Base Loan Amount divided by the Adjusted Value.

**Manufactured Housing**
Manufactured Housing refers to structures that are transportable in one or more sections. They are designed to be used as a dwelling when connected to the required utilities, which includes the plumbing, heating, air-conditioning and electrical systems contained therein.

**Net Sale Proceeds**
Net Sale Proceeds are the proceeds of a PFS sale, calculated by subtracting reasonable and customary closing/settlement costs from the property sales price.

**Note**
Note refers to any form of credit instrument commonly used in a jurisdiction to evidence a mortgage.

**Notice of Intent to Prepay**
Notice of Intent to Prepay refers to the advance notice that Borrowers may be required to provide in order to prepay their FHA-insured mortgages in full without penalty.

**Occupancy Follow-Up**
An Occupancy Follow-Up is an attempt to communicate with the Borrower via letter, telephone, or other method of communication, other than on-site inspection, to determine occupancy when
the mortgage remains in default after the initial inspection and the mortgagee has not determined the Borrower’s occupancy status.

**Occupancy Inspection**
An Occupancy Inspection is a visual inspection of a mortgaged property by the mortgagee to determine if the mortgaged property has become vacant or abandoned and to confirm the identity of any occupants when:
- the mortgage is in default;
- a payment is not received within 45 Days of the due date; and
- efforts to reach the Borrower or occupant have been unsuccessful.

**Partial Claim**
A Partial Claim is a mortgagee advancement of funds on behalf of the Borrower in an amount necessary to assist in reinstating the delinquent loan under the FHA-HAMP Option.

**Partial Prepayment**
A Partial Prepayment is a payment in part of the principal amount of the Mortgage Note in advance of the established amortization schedule.

**Pension**
Pension refers to income received from the borrower’s former employer(s).

**Personal Property**
Personal Property refers to tangible property, other than real property, such as cars, recreational vehicles, stamps, coins or other collectibles.

**Prepayment in Full**
A Prepayment in Full is the payment in whole of the principal amount of the Mortgage Note in advance of expiration of the term of the Mortgage Note.

**Principal Residence**
Principal Residence refers to a dwelling where the Borrower maintains or will maintain his or her permanent place of abode and typically spends or will live in the home the majority of the calendar year. A person may have only one Principal Residence at any one time. A person in military service must meet the requirements of 24 CFR 203.31.

**Property Value**
Property Value refers to the value as determined by the FHA Roster Appraiser.

**Purchasing Mortgagee**
The Purchasing Mortgagee is the mortgagee that purchases the mortgage and thereby succeeds to all rights and obligations of the Selling Mortgagee under the contract for mortgage insurance.
Rate and Term
Rate and Term refers to a no cash-out refinance of any mortgage in which all proceeds are used to pay existing mortgage liens on the subject property and costs associated with the transaction.

Rental Income
Rental Income refers to income received or to be received from the subject property or other real estate holdings.

Reserves
Reserves refers to the sum of the Borrower’s verified and documented liquid assets minus the total funds the Borrower is required to pay at closing.

Secondary Residence
Secondary Residence refers to a Structure that a Borrower occupies in addition to its Principal Residence; it does not include a Vacation Home.

Selling Mortgagee
The Selling Mortgagee is the mortgagee that sells the mortgage and thereby relinquishes all rights and obligations under the contract for mortgage insurance.

Social Security Income
Social Security Income or Supplemental Security Income (SSI) refers to income received from the SSA other than disability income.

Streamline Refinance
Streamline Refinance refers to the refinance of an existing FHA mortgage requiring limited Borrower credit documentation and underwriting. There are two different streamline options available.

Structure
Structure refers to a building that has a roof, walls, and stands permanently in one place which contains single or multiple housing units that are used for human habitation.

Substantially Damaged
A building is considered to be “Substantially Damaged,” as defined in the National Flood Insurance Program (NFIP) regulations at 44 CFR § 59.1, when “damage of any origin is sustained by a structure whereby the cost of restoring the structure to its before damaged condition would equal or exceed 50 percent of the market value of the structure before the damage occurred.”

Surplus Income Percentage
Surplus Income Percentage is defined as surplus income divided by monthly net take-home income.
Transferee Servicing Mortgagee
The Transferee Servicing Mortgagee is the mortgagee to which the servicing responsibilities have been transferred.

Transferor Servicing Mortgagee
The Transferor Servicing Mortgagee is the mortgagee that transfers servicing responsibilities.
ACRONYMS

1. ACD - Accelerated Claims Disposition
2. ADP - Automated Data Processing
3. AFMV - Adjusted Fair Market Value
4. AOM - Assignment of Mortgage
5. ARM - Adjustable Rate Mortgages
6. AVM - Automated Valuation Model
7. BIA - Bureau of Indian Affairs
8. BPO - Broker’s Price Opinion
9. BPS - Basis Points
10. CAFMV - Commissioner’s Adjusted Fair Market Value
11. CAIVRS - Credit Alert Interactive Voice Response System
12. CFPB - Consumer Financial Protection Bureau
13. CFR - Code of Federal Regulations
14. CPA - Certified Public Accountant
15. CWCOT - Claims without Conveyance of Title
16. DDR - Delinquency/Default Reason
17. DDS - Delinquency/Default Status
18. DHHL - Department of Hawaiian Home Lands
19. DIL - Deed-in-Lieu
20. DIT - Deficit Income Test
21. EDI - Electronic Data Interchange
22. EHLP - Emergency Homeowners Loan Program
23. EPD - Early Payment Default
24. EPM - Exit Premium Mortgage
25. ESIGN - Electronic Signatures in Global and National Commerce Act
26. EVARS - Extensions and Variances Automated Requests System
27. FDIC - Federal Deposit Insurance Corporation
28. FEMA - Federal Emergency Management Agency
29. FHA - Federal Housing Administration
30. FHA-HAMP - FHA Making Home Affordable Program
31. FHAC - FHA Connection
32. FMV - Fair Market Value
33. FIRM - Flood Insurance Rate Map
34. GEM - Growing Equity Mortgages
35. GNND - Good Neighbor Next Door
36. GPM - Graduated Payment Mortgages
37. H4H - HOPE for Homeowners
38. HECM - Home Equity Conversion Mortgages
39. HOA - Homeowners’ Association
40. HOC - Homeownership Center
41. HOPE - Homeownership and Opportunity for People Everywhere
42. HUD - U.S. Department of Housing and Urban Development
43. IRC - Internal Revenue Code
44. IRS - Internal Revenue Service
### Glossary and Acronyms

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<th>No.</th>
<th>Acronym</th>
<th>Description</th>
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<td>1</td>
<td>LTV</td>
<td>Loan-to-Value</td>
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<tr>
<td>2</td>
<td>MCM</td>
<td>Mortgagee Compliance Manager</td>
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<td>3</td>
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<td>4</td>
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<td>8</td>
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<td>Notice to Occupant of Pending Acquisition</td>
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<td>National Servicing Center</td>
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<td>10</td>
<td>NSF</td>
<td>Insufficient Funds</td>
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<td>11</td>
<td>OUI</td>
<td>Oldest Unpaid Installment</td>
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<td>12</td>
<td>P&amp;I</td>
<td>Principal and Interest</td>
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<td>Preservation and Protection</td>
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<td>PITI</td>
<td>Principal, Interest, Taxes, and Insurance</td>
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<td>Real Estate Settlement Procedure Act</td>
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<td>25</td>
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<td>Social Security Income</td>
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