



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: March 8, 2023

Mortgagee Letter 2023-06

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All HUD-Approved Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Establishment of the 40-Year Loan Modification Loss Mitigation Option

Purpose This Mortgagee Letter (ML) establishes the 40-year standalone Loan Modification into FHA's COVID-19 Loss Mitigation policies.

Effective Date The provisions of this ML may be implemented immediately but must be implemented no later than May 8, 2023.

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

Public Feedback HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send feedback to the FHA Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.

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

Background

HUD’s Office of Single Family Housing (Single Family) continues to review the COVID-19 Recovery Loss Mitigation Options and how best to assist Borrowers impacted by COVID-19 or other financial hardships. The current COVID-19 Recovery Options have proven to be very successful in helping Borrowers bring their mortgage current and, when necessary, providing significant payment reduction. Since the start of the COVID-19 pandemic FHA has provided over 1.3 million COVID loss mitigation actions to Borrowers. In light of the increasing interest rate environment, HUD is expanding the COVID-19 Loss Mitigation Options to provide Mortgagees with tools to further assist borrowers and reduce losses to HUD’s Mutual Mortgage Insurance Fund.

Through this ML, HUD establishes a standalone 40-year loan modification for FHA’s COVID-19 Recovery Modification if Partial Claim funds are not available.

Summary of Changes

This ML updates the COVID-19 Recovery Loan Modification (III.A.2.o.iii(C)(2)).

FHA Single Family Housing Policy Handbook 4000.1

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

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

(2) COVID-19 Recovery Modification

For Borrowers who do not meet the requirements for a COVID-19 Recovery Standalone Partial Claim, the Mortgagee must review the Borrower for the COVID-19 Recovery Modification.

(a) Definition

The COVID-19 Recovery Modification is a 360-month or 480-month Loan Modification, which must include a COVID-19 Recovery Partial Claim if Partial Claim funds are available. The COVID-19 Recovery Modification targets a reduction in the P&I portion of the Borrower’s monthly Mortgage Payment.

The Target Payment of the COVID-19 Recovery Modification is a payment that achieves a minimum 25 percent reduction to the P&I portion of the Borrower’s monthly Mortgage Payment.

(b) Eligibility

The Mortgagee must ensure that the Borrower indicates they have the ability to make the modified Monthly Payment.

Eligible Borrowers may receive more than one COVID-19 Recovery Modification.

Exemption from COVID-19 Recovery Modification

Mortgagees that service Mortgages funded in connection with mortgage revenue bonds that are restricted by the Internal Revenue Code are exempt from the COVID-19 Recovery Modification if they cannot extend the term of a Mortgage beyond the original 30 years or the interest rate cannot be modified.

(c) Standard

To arrive at the target payment, the Mortgagee must apply the following steps until the target payment is achieved. No income documentation is required to calculate the Borrower's modified monthly Mortgage Payment.

Step 1 – Calculate COVID-19 Recovery Partial Claim Availability

The Mortgagee must determine the maximum COVID-19 Recovery Partial Claim amount available for a COVID-19 Recovery Modification.

For a Partial Claim as part of a COVID-19 Recovery Modification, the COVID-19 Recovery Partial Claim must not exceed 30 percent of the unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim less any previous Partial Claims paid.

- The Mortgagee must first calculate 30 percent of the unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim.
- The Mortgagee must then subtract any previous Partial Claims paid to determine the available COVID-19 Recovery Partial Claim amount that can be used for the COVID-19 Recovery Modification.

Step 2 – Arrearages

The Mortgagee must calculate the arrearages. Arrearages refer to any amounts needed to bring the Borrower current and includes:

- unpaid accrued interest;
- Mortgagee advances for escrow items;
- projected escrow shortage amount; and
- related legal fees and foreclosure and bankruptcy costs not higher than the foreclosure-related fees and costs HUD has identified as customary and reasonable.

Mortgagees may include an additional month in the total outstanding debt to be resolved to allow time for the Borrower to return the executed Loan Modification documents before the due date of the modified Mortgage Payment.

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

Step 3 – Modify the Rate and Term of the 30-Year Mortgage

The modified Mortgage is a 360-month Loan Modification, which must include a COVID-19 Recovery Partial Claim, if Partial Claim funds are available.

The Mortgagee must first apply available Partial Claim funds toward the arrearages. If the COVID-19 Recovery Partial Claim funds are insufficient to cure the arrearages, then the Mortgagee must capitalize the remaining arrearages into the modified Mortgage.

The Mortgagee must then extend the term to 360 months and calculate the modified Mortgage Payment. The interest rate of the modified Mortgage is no greater than the most recent 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 the Borrower is offered a COVID-19 Recovery Modification.

Step 4 – Principal Deferment for 30-Year Modification

If the target payment is not achieved in Step 3, the Mortgagee must apply available COVID-19 Recovery Partial Claim funds as a principal deferment up to the amount needed to achieve the target payment with the modified 30-year Mortgage.

If the target payment is achieved, the Mortgagee must provide that option to the Borrower without proceeding to Step 5.

Step 5 – Modify the Rate and Term of the 40-Year Mortgage

If the Mortgagee cannot achieve the target payment at Step 4, the Mortgagee must modify the Mortgage to a 40-year (480-month) Loan Modification, which must include a COVID-19 Recovery Partial Claim if Partial Claim funds are available.

The Mortgagee must first apply available Partial Claim funds toward the arrearages. If the Partial Claim funds are insufficient to cure the arrearages, the Mortgagee must capitalize the remaining arrearages into the modified Mortgage.

The Mortgagee must extend the term to 480 months to achieve the target payment and calculate the modified Mortgage Payment.

The Mortgagee may extend the term to less than 480 months if:

- requested by the Borrower; and
- the modified Mortgage at the lesser term achieves the target payment.

The interest rate of the modified Mortgage must be no more than 50 bps greater than the most recent 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 the Borrower is offered a COVID-19 Recovery Modification. The Mortgagee must round the modification interest rate to the nearest one-eighth of 1 percent (0.125 percent) before adding no more than 50 bps to the interest rate.

Step 6 – Principal Deferment for 40-Year Modification

If the target payment is not achieved in Step 5, the Mortgagee must apply available Partial Claim funds as a principal deferment to achieve the target payment with the modified 40-year Mortgage.

Step 7 – Target Payment Not Achieved

If the Mortgagee cannot achieve the target payment using the above steps, then the Mortgagee must offer the Borrower the lowest monthly P&I payment achieved under the COVID-19 Recovery Modification or, if the P&I monthly payment increases under the COVID-19 Recovery Modification and the COVID-19 Standalone Partial Claim is available, the COVID-19 Standalone Partial Claim. If the Borrower affirms that they can make the offered payment, then the Mortgagee must complete that option.

(d) Terms

The Mortgagee must ensure that:

- the modified Mortgage is a fixed rate Mortgage;
- the interest rate of the modified Mortgage does not exceed the applicable limit set forth in Steps 3 or 5;
- the COVID-19 Recovery Partial Claim, as part of a COVID-19 Recovery Modification, does not exceed 30 percent of the unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim less any previous Partial Claims paid;
- the COVID-19 Recovery Modification fully reinstates the Mortgage including all arrearages; and
- the FHA-insured modified Mortgage remains in first lien position and is legally enforceable.

HUD does not provide model documents for the COVID-19 Recovery Modification.

(e) Document Delivery Requirements

The Mortgagee must submit all required documentation for COVID-19 Recovery Partial Claims as listed under FHA-HAMP Loan Documents, except no TPP is required.

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

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If a Mortgagee experiences additional delays out of their control, including past the automatic 90-Day extension for the recorded Mortgage, that impact delivery of the Partial Claim documents, Mortgagees may file requests for an additional extension in accordance with Requests for Extensions of Time for Delivery of Partial Claim Documents.

Paperwork Reduction Act

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

Questions

Any questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALL-FHA, answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Signature

Julia R. Gordon
Assistant Secretary for Housing -
FHA Commissioner
