



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: June 23, 2026

Mortgagee Letter 2026-08

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 FHA-Approved Title I Lenders
All HUD-Certified Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Updates to Loss Mitigation Requirements

Purpose This Mortgagee Letter (ML) updates the requirements for Trial Payment Plans (TPP) and for reviewing Borrowers for loss mitigation options.

Effective Date The provisions of this ML may be implemented immediately but must be implemented no later than September 21, 2026.

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

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

Background The Federal Housing Administration's (FHA) servicing and loss mitigation requirements include home retention options that help prevent foreclosure and reduce losses to FHA's Mutual Mortgage Insurance Fund (MMIF). HUD continually reviews its policies to identify opportunities for program improvements and to reduce fraud or abuse. As part of these efforts, HUD has identified two areas where strengthening FHA's requirements can remove potential opportunities to abuse loss mitigation assistance. First, this

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ML establishes a new reason for Trial Payment Plan (TPP) failure. HUD recognizes that there are legitimate circumstances where Borrowers may fail to make a first payment on a TPP. However, to avoid Borrowers deliberately choosing to repeatedly fail to accept a TPP, when a Borrower fails to accept a TPP Agreement for a third time, this will be considered a TPP failure. Second, this ML limits Borrower requests for multiple re-reviews for loss mitigation that prevent the Mortgagee from initiating foreclosure.

HUD acknowledges that escrow payments for taxes and insurance may increase during the term of a TPP. Therefore, to reduce uncertainty for Mortgagees, this ML updates the TPP requirements to clarify that the monthly payment between the TPP and the Permanent Home Retention Option or OWL may change for this reason. Additionally, this ML revises the TPP requirements to align with the housing policy waiver published on March 3, 2026, allowing Borrowers to make their TPP payments in advance of the month they are due.

Summary of Changes

This ML:

- updates Trial Payment Plans – Definitions (III.A.2.i.iii(C)(1));
- updates Trial Payment Plans – Standard (III.A.2.i.iii(C)(2));
- updates Trial Payment Plan Failure – Standard (III.A.2.i.iii(C)(5)(a)); and
- updates When to Initiate Foreclosure (III.A.2.p.i(C)).

FHA Single Family Housing Policy Handbook 4000.1

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

Trial Payment Plans (III.A.2.i.iii(C))

(1) Definitions [Text was deleted in this section.]

Servicing and Loss Mitigation

A Trial Payment Plan (TPP) is a payment plan for a period of three months, four months for a Borrower in Imminent Default, or six months for Non-Borrowers Who Acquired Title through an Exempted Transfer, during which the Borrower must make the agreed-upon monthly payments beginning after the Mortgagee has approved the Borrower for a Permanent Home Retention Option or OWL, and prior to executing the permanent Loss Mitigation documents.

A Trial Payment Plan (TPP) Agreement is a written document that establishes the TPP terms, which must be provided to the Borrower prior to the first payment due under the TPP payment due date.

Trial Payment Plans – Standard (III.A.2.i.iii(C)(2))

(a) Trial Payment Plan Required

The Mortgagee must ensure the Borrower successfully completes a TPP for a period of three months before executing Permanent Home Retention Option or OWL documents.

The Mortgagee must ensure Borrowers in Imminent Default successfully complete a TPP for a period of four months before executing Permanent Home Retention Option documents.

The Mortgagee must ensure Non-Borrowers Who Acquired Title through an Exempted Transfer successfully complete a TPP for a period of six months before executing Permanent Home Retention Option documents.

The Mortgagee must complete an escrow analysis before calculating the monthly payment under the TPP.

(b) Trial Payment Terms

The Mortgagee must ensure the following terms of the TPP are met:

- the TPP does not exceed a period of three months, four months for Borrowers in Imminent Default, or six months for [Non-Borrowers Who Acquired Title through an Exempted Transfer](#) (III.A.2.h.iii(A)(2));
- for any Loss Mitigation Option that includes a Loan Modification, the interest rate for the TPP and the permanent Loan Modification is not greater than the Market Rate;
 - the Market Rate must be established when the TPP is offered;
- the P&I portion of the monthly payment under the TPP must be the projected P&I portion of the monthly Mortgage Payment for the Permanent Home Retention Option or OWL; and
- Late Charges must be waived during the trial payment period if the Borrower is paying as agreed on the TPP.

For Borrowers completing a TPP after a default during a Payment Supplement Period, the Mortgagee must:

- ensure the P&I portion of the monthly payment during the TPP is the projected P&I portion of the monthly Mortgage Payment for the Permanent Home Retention Option or OWL;
- for Standalone Partial Claims, continue to apply the Monthly Principal Reduction (MoPR) during the TPP when the Mortgagee has received and accepted, at a minimum, the Borrower's portion of the Mortgage Payment under the Payment Supplement; and

- for Loan Modifications or Combination Loan Modifications and Partial Claims:
 - not reduce the TPP payment amount by the MoPR; and
 - apply the MoPR when the Borrower's portion of the Mortgage Payment due under the Payment Supplement has been received and accepted, including partial payments accumulated during the TPP.

(c) Trial Payment Plan Agreement

The Mortgagee must provide the TPP Agreement to all parties that will be required to execute the Loss Mitigation Agreement for the Permanent Home Retention Option or OWL at least 15 Days before the date the first trial payment is due. The Borrower is not required to sign and return the TPP Agreement.

The TPP Agreement must include:

- the duration of the TPP period;
- the amount of the monthly payments, which are the projected monthly Mortgage Payments for the Permanent Home Retention Option or OWL;
- the months the payments are due during the TPP period;
- the Market Rate for the modified Mortgage, if applicable; and
- a notice that indicates:
 - remittance of the initial monthly installment in an amount equal to or greater than the amount required under the TPP is considered the Borrower's acceptance of the TPP Agreement;
 - after successfully completing the TPP, the Borrower must continue making payments in accordance with the terms of the TPP Agreement until the Permanent Home Retention Option or OWL documents have been ratified by all parties; and
 - the reasons a TPP would fail.

Trial Payment Plan Failure (III.A.2.i.iii(C)(5))

(a) Standard

The Borrower has failed a TPP when one of the following occurs:

- the Mortgagee becomes aware the Property has been condemned or abandoned;
- the Borrower fails to accept a TPP Agreement for a third time during the Default episode;
- the Borrower does not make a scheduled TPP payment by the last Day of the month the payment was due; or

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- the Borrower informs the Mortgagee that the terms of the TPP Agreement will not be fulfilled.

The Mortgagee must report a TPP failure in SFDMS, even if a subsequent TPP may be offered.

The Mortgagee must apply all funds remaining in suspense to the Borrower's account in accordance with [Application of Payments](#) (II.A.1.e.ii).

If the Borrower fails a TPP and is not eligible for another Permanent Home Retention Option, the Mortgagee must evaluate the Borrower for Home Disposition Options.

HUD provides an automatic 90-Day extension for the Mortgagee to approve another Loss Mitigation Option, or to commence or recommence foreclosure, should a TPP fail.

Mortgagee Action before Initiation of Foreclosure (III.A.2.p.i)

(C) When to Initiate Foreclosure

After at least three full monthly Mortgage 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 initial complete loss mitigation request and, if applicable, of any subsequent complete loss mitigation request after a change in the Borrower's circumstances that impacts their eligibility for a Loss Mitigation Option, and:
 - determined 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 a Loss Mitigation Option Agreement, and the Mortgagee has determined that the Borrower is ineligible for other Loss Mitigation Options; or
- the Mortgagee has been unable to determine the Borrower's eligibility for any Loss Mitigation Option due to the Borrower not responding to the Mortgagee's efforts to contact the Borrower.

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

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assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. 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.

Feedback or Questions

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), 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

Joseph M. Gormley
Performing the Delegable Duties of the Assistant Secretary for Housing -
Federal Housing Commissioner
