

FHA Single Family / Mortgagee Letters - 2018 / ML 2018-01: Loss Mitigation for borrowers with FHA-insured mortgages whose property and/or place of employment is located in Presidentially-Declared Major Disaster Areas, adversely affected by Hurricanes Harvey, Irma, Maria, certain California wildfires that occurred in October 2017 (FEMA-DR-4344) or certain California Wildfires, Flooding, Mudflows, and Debris Flows that occurred in December 2017 (FEMA-DR-4353) (02/22/18)

**ML 2018-01: Loss Mitigation for borrowers with FHA-insured mortgages whose property and/or place of employment is located in Presidentially-Declared Major Disaster Areas, adversely affected by Hurricanes Harvey, Irma, Maria, certain California wildfires that occurred in October 2017 (FEMA-DR-4344) or certain California Wildfires, Flooding, Mudflows, and Debris Flows that occurred in December 2017 (FEMA-DR-4353) (02/22/18)**

**To:** All FHA-Approved Mortgagees  
All Direct Endorsement Underwriters  
All HUD Approved Housing Counselors  
All HUD Approved Nonprofit Organizations  
All Government Entity Participants

**Purpose**

This Mortgagee Letter amends the Loss Mitigation policies for Disaster-Affected Borrowers referenced in Section III.A.3.c.iv of FHA Single Family Housing Policy Handbook 4000.1 for borrowers with FHA-insured mortgages whose mortgage and/or employment is located in the Presidentially-Declared Major Disaster Areas (PDMAs) of Louisiana Hurricane Harvey DR-4345, Texas Hurricane Harvey DR-4332, Florida Hurricane Irma DR-4337, Georgia Hurricane Irma DR-4338, Puerto Rico Hurricane Irma DR-4336, South Carolina Hurricane Irma DR-4346, Virgin Islands Hurricane Irma DR-4335, Puerto Rico Hurricane Maria DR-4339, Virgin Islands Hurricane Maria DR-4340, California Wildfires DR-4344 or California Wildfires, Flooding, Mudflows, and Debris Flows (FEMA-DR-4353).

**Effective Date**

Mortgagees must implement the amended policies set forth in this Mortgagee Letter no later than May 1, 2018, but may begin using the new policies immediately. Mortgagees may no longer offer the policies in this Mortgagee Letter to borrowers on or after May 1, 2019, which is the Sunset Date for the Mortgagee Letter.

Since the policies in this Mortgagee Letter only apply to the Presidentially-Declared Major Disaster Areas of Louisiana Hurricane Harvey DR-4345, Texas Hurricane Harvey DR-4332, Florida Hurricane Irma DR-4337, Georgia Hurricane Irma DR-4338, Puerto Rico Hurricane Irma DR-4336, South Carolina Hurricane Irma DR-4346, Virgin Islands Hurricane Irma DR-4335, Puerto Rico Hurricane Maria DR-4339, Virgin Islands Hurricane Maria DR-4340, California Wildfires DR-4344 and California Wildfires, Flooding, Mudflows, and Debris Flows (FEMA-DR-4353), the changes are not being incorporated into Handbook 4000.1.

**Public Feedback**

HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance of this Mortgagee Letter. To provide feedback on this document, please send it to the FHA Resource Center at [answers@hud.gov](mailto:answers@hud.gov). HUD will consider the feedback in determining the need for future updates.

**Affected Programs**

This guidance applies to all FHA Title II forward mortgages of borrowers whose property or employment is located in the Presidentially-Declared Major Disaster Areas of Louisiana Hurricane Harvey DR-4345, Texas Hurricane Harvey DR-4332, Florida Hurricane Irma DR-4337, Georgia Hurricane Irma DR-4338, Puerto Rico Hurricane Irma DR-4336, South Carolina Hurricane Irma DR-4346, Virgin Islands Hurricane Irma DR-4335, Puerto Rico Hurricane Maria DR-4339, Virgin Islands Hurricane Maria DR-4340, California Wildfires DR-4344 or California Wildfires, Flooding, Mudflows, and Debris Flows FEMA-DR-4353.

**Background**

In 2005, FHA leveraged its Partial Claim loss mitigation product to assist victims of Hurricanes Katrina, Rita and Wilma with FHA-insured mortgage loan delinquencies. Circa 2010, during the recovery of the housing market crisis, FHA again used the Partial Claim product to cure FHA borrowers' long-term mortgage loan delinquencies and help borrowers retain homeownership. As such, for several years now, HUD has experienced a drastic reduction in its mortgage loan Re-default Rates associated with FHA's loss mitigation program.

This Mortgagee Letter is designed to provide immediate relief to FHA borrowers in designated disaster areas and help them stay in their homes while reducing losses to FHA's Mutual Mortgage Insurance Fund.

To achieve this, the Mortgagee Letter: (1) streamlines income documentation and other requirements to expedite loss mitigation relief for borrowers; and (2) introduces a new "Disaster Standalone Partial Claim" option to help eligible borrowers on forbearance resume their pre-disaster mortgage payments and avoid payment shock. The new partial claim option is not available to borrowers experiencing a loss of income or long-term delinquency (i.e., > 12 months of missed mortgage payments); those borrowers will be evaluated for the existing FHA-HAMP product, which targets a 20 percent or greater monthly mortgage payment reduction.

**Reduced Income Documentation for Disaster Loan Modifications and Disaster Standalone Partial Claims Only**

For the designated PDMAs, a Verification of Employment (VOE) is not required to confirm a Borrower's employment status and income is the same as it was prior to the disaster. In lieu of the VOE, Mortgagees may confirm a Borrower's employment and income using either:

- The Borrower's most recent pay stub for Wage Income reflecting year-to-date earnings;
- The Borrower's most recent Bank Statement reflecting deposits of income amounts from applicable sources; or
- Other documentation (e.g., Monthly Statement of Social Security Benefits, Monthly Pension Statement) reflecting the amount of income.

This streamlined verification of income process must not be used to evaluate a Disaster-Affected Borrower for an FHA-HAMP option.

The policy impacted is referenced in Handbook 4000.1, III.A.3.c.iv(C)(1)-**Eligibility for Loan Modification without a Financial Evaluation**.

**Elimination of the Trial Payment Plan Requirement for Disaster Loan Modifications and Disaster Standalone Partial Claims Only**

For the designated PDMAs, a Trial Payment Plan (TPP) is not required before completion of a Disaster Rate and Term Loan Modification or a Disaster Standalone Partial Claim for a Borrower who was current or less than 30 days past due as of the date of the applicable Disaster Declaration.

Elimination of the TPP requirement is not applicable for Disaster-Affected Borrowers receiving an FHA-HAMP option.

The policy impacted is referenced in Handbook 4000.1, III.A.3.c.iv(C)(2) - **Terms of the Loan Modification**. (*For Loan Modifications without a Financial Evaluation*)

**Application of the One Modification or Partial Claim within 24-month Restriction**

For borrowers in the designated PDMDAs, any modification or partial claim received within the prior 24 months as of the date of the applicable disaster declaration will not count for the purposes of applying the "one modification or partial claim within a 24-month period" criterion to potential future loss mitigation assistance.

The policy impacted is referenced in Handbook 4000.1, III.A.2.k.v(C)(2) - **Borrower Qualifications**. (For Loan Modifications) and 4000.1, III.A.2.k.vi(B)(2) - **Borrower Qualifications** (For FHA HAMP)

Disaster Standalone Partial Claim (New Loss Mitigation Product)

For the specified PDMDAs, the Mortgagee must evaluate Borrowers for a Disaster Standalone Partial Claim at the end of the Forbearance period if the Borrower does not qualify for a Disaster Rate and Term Loan Modification. Use of the Disaster Standalone Partial Claim requires that each criterion below be met. The criteria are as follows:

1. The Mortgage was current *or* less than 30 days past due as of the date of the applicable Disaster Declaration;
2. The Mortgagee confirms that the Borrower's income is equal to or greater than it was prior to the Disaster;
3. The Borrower demonstrates the ability to resume total monthly mortgage payments of Principal, Interest, Taxes, and Insurance (PITI);
4. The dwelling is owner-occupied;
5. A Disaster Rate and Term Loan Modification over a 30-year period at the Market Rate<sup>1</sup> would provide a monthly Mortgage Payment (i.e., including PITI) that is *greater* than the pre-disaster payment on the FHA-insured Mortgage;
6. The existing interest rate on the FHA-insured Mortgage is lower than the Market Rate;
7. The total amount of the Disaster Standalone Partial Claim does not exceed the equivalent of 12 total monthly Mortgage Payments (i.e., including PITI);
8. The Mortgagee waives the Borrower's accumulated late fees;
9. The Disaster Standalone Partial Claim is subject to the maximum statutory value of all Partial Claims<sup>2</sup> for an FHA-insured Mortgage; and
10. The Mortgagee must keep the FHA-insured Mortgage in its current Ginnie Mae (GNMA) pool.

For details on why HUD selected these specific criteria, please refer to the justifications set forth at:  
[https://www.hud.gov/program\\_offices/housing/sfh/lender/lossmitig](https://www.hud.gov/program_offices/housing/sfh/lender/lossmitig)

-----  
<sup>1</sup> For this Mortgagee Letter, the term "Market Rate" is defined as a rate that is no more than 25 basis points 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 one percent (0.125%), as of the date a Trial Payment Plan is offered to a Borrower for an FHA-HAMP option *or* the date the borrower is offered a permanent Disaster Rate and Term Loan Modification. The Weekly PMMS results are published on Freddie Mac's website at <http://www.freddiemac.com/pmms/>.

<sup>2</sup> The statutory maximum value of all Partial Claims (i.e., combined) is 30 percent (30%) of the Unpaid Principal Balance of each FHA-insured Mortgage and any costs that are approved by the Secretary. For purposes of calculating the maximum Partial Claim value for each loss mitigation action, it is the lesser of: (1) the Unpaid Principal Balance as of the date of Default associated with the initial Partial Claim, if applicable, multiplied by 30 percent, less any previous Partial Claim(s) paid on the FHA-insured Mortgage; (2) if there are no previous Partial Claim(s), the Unpaid Principal Balance as of the date of the current Default multiplied by 30 percent; or (3) the total amount required to meet the targeted PITI Mortgage payment. The Partial Claim amount may include arrearages, legal fees and foreclosure costs related to a canceled foreclosure action and principal deferment.

#### Evaluation of Disaster-Affected Borrowers for other Loss Mitigation Home Retention Options

Borrowers who do not meet the criteria for a Disaster Loan Modification or a Disaster Standalone Partial Claim following Disaster forbearances *or* who have a continuous reduction in income or increase in living expenses must be considered for an FHA-HAMP option under the Loss Mitigation Option Priority Waterfall in Section III of the FHA Single Family Housing Policy Handbook 4000.1.

#### Terms of the Mortgage Loan are Unaffected

Nothing in this Mortgagee Letter confers any right to a Borrower to any loss mitigation or any other action by HUD or the Mortgagee. Further, nothing in this Mortgagee Letter interferes with any right of the Mortgagee to enforce its private contractual rights under the terms of the Mortgage Loan. All private contractual rights and obligation remain unaffected by anything in this Mortgagee Letter. Where a Mortgagee chooses to enforce its contractual rights after expiration of any automatic foreclosure moratorium, the standard regulatory timeframes to initiate foreclosure and reasonable diligence in prosecuting foreclosure will apply.

#### 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 of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Number 2502-0583. In accordance with the Paperwork Reduction Act, 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 Mortgagee Letter may be directed to the HUD National Servicing Center at 1-877- 622-8525. Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339. For additional information on this Mortgagee Letter, please visit [www.hud.gov/answers](http://www.hud.gov/answers).

#### Signature

Dana T. Wade  
General Deputy Assistant Secretary for Housing