

## FHA Provides Loss Mitigation Guidance for Borrowers Facing Imminent Default (ML 2010-04)

[Link to Mortgagee Letter »](#)

### Notable Date:

Effective Immediately

### Industry Participants Affected:

All FHA Approved Servicers and Housing Counseling Agencies

### Synopsis:

If a borrower is current, or less than 30 days past due, and is experiencing a significant reduction in income or a hardship that will prevent them from making their scheduled mortgage payment, then they are facing imminent default. HUD expects servicers to establish early contact with borrowers that are having problems making their mortgage payment in the month the payment is due to determine if the borrower will potentially default. Learning the reasons for imminent default and evaluating loss mitigation options with the borrower increases the likelihood of retaining homeownership for the borrowers and protecting the FHA insurance fund from unnecessary losses.

Forbearance and the FHA-HAMP are the two loss mitigation options available to borrowers in risk of imminent default. Informal and formal forbearance agreements may be used. An informal agreement is a verbal agreement to postpone, reduce or suspend payment(s) due on a loan for three months or less. A formal agreement must be in writing for terms greater than three months.

FHA-HAMP is another option for borrowers facing imminent default. This program allows qualified borrowers to reduce their mortgage payment to an affordable and sustainable level. FHA-HAMP requires a four-month trial modification period.

Both loss mitigation options require the servicer to document the reason for imminent default and perform a financial analysis of the borrower's financial condition. The financial analysis for forbearance agreements is conducted using FHA's standard loss mitigation procedures, which use a net surplus basis. The FHA-HAMP program requires the calculation of qualification ratios based on an analysis of documented income and expenses.

FHA reminds lenders that they are accountable for taking appropriate loss mitigation action and following FHA's requirements. If a lender fails to comply, they may be subject to administrative action.

### *How does it change or benefit the industry:*

This mortgagee letter reminds lenders of the importance of communicating with borrowers before they become 30 days delinquent to understand if they are at risk of imminent default. If they are at risk, then the servicer has a couple of loss mitigation options that will reduce the potential for foreclosure and keep borrowers in their homes. Curing default early benefits the borrower, the servicer, FHA's insurance fund, and the community where the property is located.

[Link to Mortgagee Letter »](#)

### About this AllRegs HUD Mortgagee Letter Synopsis:

- This synopsis is intended as a "snap-shot" of the ML 2010-04, but should not be substituted for the entire contents of the actual Mortgagee Letter published by HUD.
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