



FHA INFO 2024-81

November 25, 2024

## FHA Seeks Industry Feedback on its Proposed New Loss Mitigation Waterfall

Today, the Federal Housing Administration (FHA) posted a draft of the [Servicing and Loss Mitigation, and Claims and Disposition sections, Appendix 4.0 of the Single Family Handbook Policy Handbook](#) (Handbook 4000.1) and the [Single Family Default Monitoring System \(SFDMS\) Reporting Codes and Reporting Data Elements](#) supplemental document, on [FHA's Office of Single Family Housing Drafting Table](#) (Drafting Table) for public review and feedback through December 23, 2024.

This draft proposes updates to FHA's permanent loss mitigation options based on learnings from its temporary COVID-19 policies. When finalized, FHA will also extend the existing COVID-19 recovery options past April 30, 2025, giving stakeholders time to implement new loss mitigation, claims, and reporting requirements.

### **Proposals Contained in the Draft**

The draft includes, but is not limited to:

- Updates to FHA's repayment plan and forbearance policies;
- Changes to FHA's Home Retention Options:
  - For borrowers who are able to resume their previous monthly payments: Mortgagees would offer a standalone partial claim or a 30-year standalone loan modification for borrowers who can receive a payment reduction that is both at least \$20 and at least five percent less than the principal and interest (P&I) for the standalone partial claim;
  - For borrowers who are unable to afford their existing monthly payments: Mortgagees would continue to target a 25 percent reduction in the monthly P&I payment through working down a waterfall:
    - A 30- or 40-year standalone loan modification;
    - A 30- or 40-year combination loan modification and partial claim if the borrower can obtain at least 15 percent P&I reduction;

- A payment supplement, which provides a temporary three-year reduction in monthly payments;
    - Revises FHA's loan modification for unresponsive borrowers;
    - Updates the mortgagee-permitted loan modification pricing; and
    - Updates FHA's Presidentially-Declared Major Disaster Area policies.
- Guardrails to ensure that home retention options are reserved for borrowers who can sustain their monthly mortgage payments, including:
  - Requiring that 12 months have elapsed since the loan was originated and the borrower has made at least six payments on the loan;
  - Borrower attestation to the home retention option's affordability;
  - Borrower successful completion of a three-month trial payment plan (TPP) before receiving any home retention option;
  - Provides one additional retention attempt for borrowers who fail a TPP, but only if the option reduces monthly payments; and
  - Limits borrowers to one executed home retention option in an 18-month period.
- Changes to FHA's Home Disposition Options:
  - Adds the equity saver sale (ESS) program, which provides borrowers with equity in their homes and who are unable to maintain homeownership, a marketing period prior to foreclosure by completing a voluntary sale and retaining net equity proceeds; and
  - Includes increased monetary incentives for borrowers to avoid foreclosure through completing a pre-foreclosure sale or deed-in-lieu and, post-foreclosure, for occupants to avoid an eviction.
- Updates and consolidates SFDMS reporting.
- Updates to Appendix 4.0, which provides mortgagees with calculations for the home retention options.

### **Providing Feedback**

Interested stakeholders are encouraged to thoroughly review the draft and provide feedback by December 23, 2024. Instructions for providing feedback are posted on the [Drafting Table](#). FHA will carefully consider all feedback received before publishing a final update to [Handbook 4000.1](#).

As a reminder, this draft is not official departmental policy and cannot be used in connection with any FHA-insured mortgage until finalized. FHA's existing policies remain in effect until amended.

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