



FHA SERVICING AND LOSS MITIGATION NEWS

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U.S. Department of Housing & Urban Development

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Oklahoma City Federal Campus

WELCOME!

Welcome to the second Servicing and Loss Mitigation newsletter prepared with the primary goal of keeping our servicing lender partners informed of FHA’s current and upcoming changes, training opportunities, plus provide needed contact information. To make this publication a useful resource for our readers, your input is solicited. Please provide us with topics of interest to be included in future issues by sending your questions and comments to the NSC at our mailbox sfdatarequests@hud.gov.

Don’t wait – let us hear from you!

It is important for the reader to understand that this publication does not set new policy nor change published guidance disseminated by the U.S. Department of Housing and Urban Development (HUD).

Inside this edition

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There’s a new Mortgagee Letter in town... Look Inside for details

IMPORTANT NOTICE: Distribution of future NSC newsletters will be through email. Please send the names, job titles, mailing addresses and email addresses of interested individuals to:

sfdatarequests@hud.gov . In the subject heading, place the word, “Newsletter”.

A New Exciting Fatal Error Code—R6!



Beware of this code!!!

Fatal Error Code R6 became effective with the September 2008 reporting cycle. R6 is returned when SFIS insurance is:

- in either terminated or in claim terminated status AND
- a contradictory mortgage status code was submitted

For loans in claim terminated status in SFIS, R6 will result when a mortgage status code is submitted that is not one of the following:

- 17—Preforeclosure Sale Closing Plan Accepted OR
- 46—Property Conveyed to Insurer OR
- 47—Deed-in-Lieu Completed and Conveyed OR
- 48—Claims without Conveyance of Title OR
- 49—Assignment Completed AND LAST BUT NOT LEAST
- 25—Cancel

For loans in terminated status in SFIS, R6 will result when a mortgage status code is submitted that is not one of the following:

- 13—Paid in Full OR
- 29—Charge-Off OR
- 30—Third Party Sale OR
- 73—Property Redeemed AND LAST BUT NOT LEAST
- 25—Cancel

Retrieve and Review Your Portfolio

To retrieve and review your FHA insured portfolio, go to FHA Connection and follow the process below. See Attachment 1 FHAC Portfolio Process document for a step by step guide. A brief summary is also provided below.

1. Select Single Family FHA
2. Select Single Family Servicing
3. Select Monthly Premiums
4. Select Portfolio
5. Enter your Mortgagee ID

Information obtained from FHA Connection reflects how your loans are being reported to HUD. Discrepancies should be corrected. Contact sfdatarequests@hud.gov for assistance.

Go to <http://www.hud.gov/offices/hsg/connect.cfm> for detailed information on FHA Connection. See Attachment 1 to link to this webpage.

Contacts—Three Basic Types of

Default Reporting Questions

- 1) EDI Help Desk—mechanics of reporting to SFDMS using EDI. Email EDI.Help.Desk@hud.gov or call 1-800-483-4334.
- 2) FHA Connection—mechanics of reporting to SFDMS using FHA Connection. Email sfadmin@hud.gov
- 3) NSC Operations Branch—all policy questions (what default status codes mean, deadlines for reporting, etc.) - Email sfdatarequests@hud.gov

To Prevent R6 Errors:

Ensure that any interim status codes (default status codes that neither open or close a default episode) that need to be reported to SFDMS are reported before the SFIS insurance status is changed from active to terminated or claim terminated.

**To Correct R6 Errors:* Report a default status code 17, 46, 47, 48, 49 or 25 for R6 (ZX) - claim terminated cases. Report a default status code 13, 29, 30, 73, or 25 for R6 (ZY) - terminated cases.

Detailed information on Error Codes for HUD Default Reported can be found at <http://www.hud.gov/offices/hsg/sfh/nsr/rep/sfdmserr.pdf>. See Attachment 1 to link to this site.

*Refer to the “Default Reporting—New Functions Available” article in the August issue of FHA Servicing and Loss Mitigation August Newsletter for guidance on reporting claim terminated or terminated cases. If you did not receive the August issue, please contact us at sfdatarequests@hud.gov and we will email it to you.

CONTACT INFORMATION



Contact sfdatarequests@hud.gov with questions or requests for assistance with:

Default Reporting, TRS, CAIVRS, FHA Connection or Portfolio Reconciliation

NEW TRAINING COMING SOON

FHA Single Family Default Reporting , Portfolio Reconciliation & Measuring Servicing Performance

Training will include coverage of Single Family Default Monitoring System (SFDMS) Reporting, FHA Connection, Credit Alert System (CAIVRS), Portfolio Reconciliation, Tier Ranking System (TRS), and Rollout of Servicing Scorecard.

<u>Training Dates</u>	<u>Registration Deadline</u>
Nov. 19, 2008	Nov. 12, 2008
April 15, 2009	April 8, 2009

NSC does not charge a registration fee. Due to the size of the training facility, space is limited to the first 45 participants so register early!

Go to: <http://www.hud.gov/offices/hsg/sfh/events/events.cfm> for more details and to register. See Attachment 1 to link to this site.

ML 2008-21 FHA LOSS MITIGATION PROGRAM UPDATE

FACT SHEET

Mortgagee Letter 2008-21 announced *three changes* to the existing Loss Mitigation Program. The changes noted below were effective 8/14/2008.

Loan Modifications: Mortgagees may use the Treasury 10-year constant maturity as a basis for establishing the maximum interest rate for loan modifications.

- Maximum interest allowable should be calculated as 200 basis points above the monthly average yield on United States Treasury Securities, adjusted to a constant maturity of 10 years.
- Mortgagees shall refer to the rate that is in effect as of the date of execution of the loan modification.
- For information on the 10-year monthly constant maturities, please refer to the statistical release H.15, which is available on the following web site: <http://www.federalreserve.gov/releases/h15/data.htm>
- HOWEVER, LENDERS ARE REMINDED THAT THEY MAY STILL USE DEBENTURE INTEREST RATE AT 150 BASIS POINTS

Foreclosure Fees: Where loss mitigation is being attempted after foreclosure has been initiated, HUD will now allow legal fees and foreclosure costs related to a canceled foreclosure action to be incorporated into either the Loan Modification or the Partial Claim.

For Loan Modifications: Legal fees and related foreclosure costs may now be **capitalized** into the modified principal balance

For Partial Claims: Mortgagees may now include legal fees and foreclosure costs related to a canceled foreclosure in the Partial Claim.

Refer to Mortgagee Letter 2005-30 (or any subsequent guidance issued by FHA on reasonable and customary foreclosure costs) for the fee schedule for legal fees that HUD has identified as customary and reasonable for FHA claim reimbursement.

Late Fees: Late fees should not be capitalized in a Loan Modification or included in a Partial Claim.

Escrow Analysis: Lenders should perform a retroactive escrow analysis at the time of the loan modification to ensure that the delinquent payments being capitalized reflect the actual escrow requirements required for those months capitalized.

Additional Month: When establishing a loan modification, it is acceptable for mortgagees to include all payments due including an additional month in the loan modification.

Example: The mortgage is due for the January 2008 payment. The mortgagee completes its loss mitigation evaluation on June 27, 2008. To allow adequate time to complete the loan modification, obtain all required signatures and provide adequate notice to the mortgagor of the new payment, the mortgagee may include the payments due for July 2008 and August 2008 in the loan modification. The mortgagor will begin remitting payments due under the modified mortgage effective with the installment due September 1, 2008.

Questions: Contact HUD's National Servicing Center (NSC) at 888-297-8685 or hsglossmit@hud.gov.

See Attachment 1 for ML 2008-21.

ML 2008-21 Questions and Answers

Q: Can we add 200 basis points to the debenture rate OR does this only apply to the US Treasury Securities average yield? Do we have the option to continue to use the 150 basis points added to the debenture rate?

A: The 200 basis points are to be applied to the 10 Year Treasury Constant Maturities table and the 150 basis points is to be applied to the Debenture Interest table. Lenders have a choice as to which table they use and should document in their Claim Review File.

Q: Should we be using the 10-year Nominal Index or 10-year Inflation Indexed constant maturities rate? I found both on the H.15 site listed under the Treasury Constant Securities section.

A: Lenders should be using the 10 Year Treasury Constant Maturities Monthly table. Go to <http://www.federalreserve.gov/releases/h15/data.htm>, then go to Treasury constant maturities; Nominal ¹⁰, next go to "10-year" and then click "Monthly".

When checking for 8/26/08, the lender would use the August 2008 information: 08/2008, 3.89 + 200 basis point.

Q: I've searched the web site and cannot find the fees schedule. I've found several references to it in ML 2001-19 and 2005-30, but no link to the schedule itself. Please provide the location of the schedule.

A: Current fee schedule is Attachment 3 to ML 2005-30. This letter can be accessed at <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/05-30ml.doc>

Q: If fees exceed the Fees schedule (such as in the case of multiple foreclosures), I assume the fees that may be capped are limited by the schedule. Does the mortgagee have any discretion in capping all fees?

A: Lenders have the discretion to establish their set fees how ever they want to. It's just that HUD reimburses a lender based upon their Tier Ranking score. Lenders who are Tier 1 are reimbursed 75% of their foreclosure fees and costs and for Lenders who are Tier 2, 3, or 4 HUD reimburses 67% of their foreclosure fees and costs.

Q: Do servicers have a choice to establish the maximum loan modification rate based on the 10 year Treasury rate + 200 basis points or the debenture rate + 150 basis points?

A: With the issuance of ML 2008-21, Servicers do have a choice to either use the Debenture Interest Rate table + 150 basis points OR the Treasury 10-year constant maturity table + 200 basis points. Servicers should document their servicing/claim file with what table they utilized.

Q: Could you provide some examples of what would be acceptable related foreclosure costs that could be capitalized into the Loan Modification or included in the Partial Claim loan?

A: Some examples of related foreclosure fees and costs that could be capitalized into a Loan Modification or Partial Claim are: bankruptcy fees and costs, multiple foreclosure fees and costs. For example:

Lender initiates foreclosure

Homeowner files bankruptcy

Lender has to STOP foreclosure process (NON-Judicial State) (Judicial states may place a "hold" on their foreclosure process)

Lender acquires a Lift of Stay on the bankruptcy

Lender re-initiates foreclosure

Homeowner applies and qualifies for a Loan Modification and/or Partial Claim

Foreclosure fees and costs from the 1st initiation is eligible to be capitalized

Bankruptcy fees and costs are eligible to be capitalized

Foreclosure fees and costs from the 2nd initiation are eligible to be capitalized.

The Rules Have Changed—Know How to File a Claim Now?

Effective with the August 14, 2008 issuance of Mortgagee Letter 2008-21, FHA Loss Mitigation Program Updates, mortgagees are provided additional latitude to help borrowers cure defaults and retain homeownership. One of the more dramatic changes authorizes mortgagees to capitalize legal fees and related foreclosure costs adding them to the new mortgage amount for loan modifications or to the subordinate note amount for partial claims.

This valuable information is provided by HUD's Claims Division for guidance in filing claims using the new rules:

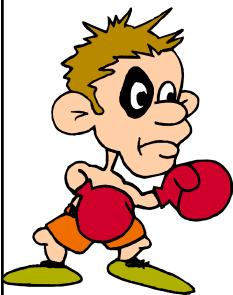
- Loan Modification (32) claims: Enter the new (modified) mortgage amount – including any capitalized amounts – to Part A, block 15(b). Continue to enter any allowable "Title Search Fee" to Part B, line 113.
- Partial (33) claims: Enter the partial note amount – including any capitalized amounts – to Part B, line 107.

Please refer to Mortgagee Letter 2008-21 for additional information related to the capitalization of these amounts in the context of FHA approved loan modifications and partial claims.

TRS Round 33 notifications to Servicing Lenders were Released August 15, 2008

TRS Round 34 – 2009 Incentive List Coming Soon

TRS Round 34 is the round to watch! Round 34 is the round that sets the incentives for calendar year 2009. Watch for Round 34 to be released sometime in November. Round 34 covers the time period of October 1, 2007 through September 31, 2008.



- An additional \$100 payment for each Special Forbearance Agreement executed on or after January 1, 2008.
- Pre-foreclosure sale time frames may be extended an additional two months without prior HUD approval.

For loans endorsed on or after February 1, 1998, lenders will be able to claim reimbursement of 75 percent for foreclosure costs (an increase from the current allowance of 66 percent) on Part B claims received by HUD on or after January 1, 2008. For loans endorsed prior to February 1, 1998, all lenders will continue to be reimbursed two thirds of the foreclosure costs. Detailed information on TRS can be at:

<http://www.hud.gov/offices/hsg/sfh/nsc/trsovrvw.cfm>

Good luck in Round 34!

And speaking of Claims...

The new fatal error R6 has created quite a stir about terminated loans. As stated on page 2, FHA loans that have been terminated with incorrect status codes are now accessible to lenders in the Single Default Monitoring System (SFDMS) for further default reporting. Following this procedure does not require reinstatement.

However, for FHA insured loans that require further reporting because Loan Modifications have extended maturity dates, *but* the loans have been terminated in the Single Family Insurance System (SFIS) due to the original maturity date being reached, a different process is provided. See Attachment 1 - Reinstatement SOP - for detailed instructions.

Many lenders contacted NSC after receiving R6 errors for these types of loans. Since the Loan Modifications were approved and applied, the loans have become delinquent again, reviewed and approved for other Loss Mitigation options. As lenders can neither report further on the loan in SFDMS or file for an incentive claim because of the termination, reinstatement must be requested.

HECM Training was Great!

Turnout was great for NSC's HECM Training held on September 9th and 10! Eighty-six attendees were welcomed to the training session by Tulsa, OK Mayor Kathy Taylor. Mayor Taylor provided interesting facts about Tulsa before turning the training over to the HECM experts. All aspects of HECM servicing were covered in the 1- 1/2 day sessions, including Claims and a segment on IACS (don't know what that is—check <http://www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm> to find out!). Stay tuned for the next session.

HECM Statistics as of July 31, 2008

- Case endorsed—93, 226
- Average Expected Interest Rate—5.4
- Average Property Value—\$240,400
- Average Maximum Claim Amount—\$217,100
- Average Initial Principal Limit—\$154,300
- Average Borrower Age—73

Resource:

<http://hud.gov/offices/hsg/com/rpts/hecm/hecmmenu.cfm>

Moratorium Matters

Reminder— A Presidential Major Disaster Declaration puts into motion federal recovery programs designed to help victims of hurricanes, earthquakes, floods, tornado, other severe weather or major fires, in areas determined to warrant supplemental federal aid. When the President declares a disaster, certain mortgage servicing actions are triggered. Mortgagees should refer to HUD Handbook 4330.1 Rev 5 for further guidance.

The mortgagee must check with the Federal Emergency Management Agency (FEMA) to obtain the specific affected counties and corresponding declaration dates. This information can be found on the internet at <http://www.fema.gov/disasters> or by calling the local FEMA office.



Reminder—The Department of Housing and Urban Development (HUD) requires a 90-day moratorium on all foreclosure actions on properties directly affected by Presidentially-declared disasters. The initial moratorium applies to not only new foreclosure initiations, but for all foreclosures in process and has historically applied for both areas declared by FEMA for individual assistance and/or for a public assistance declaration. HUD has provided this guidance in paragraph 14-2 of HUD Handbook, 4330.1 Rev. 5, Administration of Insured Home Mortgages, and has repeated it in numerous mortgagee letters. It is also referenced on the following HUD website, <http://www.hud.gov/offices/hsg/sfh/nsc/disaster.cfm>.

Disaster Resources

HUD provides a variety of disaster resources. Please go to the following HUD website for detailed information.

http://www.hud.gov/info/disasterresources_dev.cfm

CONTACT INFORMATION

Contact us with servicing and loss mitigation issues at: hsglossmit@hud.gov. This email box is available to assist HUD Partners with servicing and/or loss mitigation questions.

We're waiting to hear from you!

They saw it here first!!!

The 51 attendees at the Loss Mitigation and Servicing Training held at the Federal Campus in Oklahoma City August 20th and 21st were the first to learn about exciting changes in the Loss Mitigation Program (see page 3 for ML 2008-21 Fact Sheet). HUD's ML 2008-21 was presented hot off the press to those in attendance.



So don't wait—sign up now for 2009 Loss Mitigation and Servicing Training and be the first in your organization to learn about other exciting changes!

NSC's Servicing and Loss Mitigation Training sessions fill up quickly.

Register early to ensure you get a seat!

2009 Training Dates are:

February 18-19

May 13-14

August 19-20

Log onto HUD's website for more information and to register online.

<http://www.hud.gov/offices/hsg/sfh/events/events.cfm>

Extension and Variance Requests FAX Number Changed



Fax requests for Loss Mitigation Extensions & Variances to **(405) 609-8405**.

Did you know.....

Neighborhood Watch may be contacted with Comments/Questions by first selecting the "Help/About" tab and then the "Feedback" tab.

FHA Connection lists email addresses for the FHA Connection Help Desk, Lender Assessment, Claims Processing, Property Improvement/Manufactured Housing & FHA Resource Center at the "Contact Us" tab.