

Mortgagee Letter 2011 – 28
Trial Payment Plan for Loan Modifications and Partial Claims
Frequently Asked Questions

1. When is a Trial Payment Plan considered broken?

Answer: A Trial Payment Plan is considered broken when:

- **The Borrower vacates or abandons the property; or**
- **If the Borrower does not make the payment within the 15 grace day period from the installment due date on the Plan.**

Example: Borrower due for July 1st, 15 grace days = July 16th, Plan broken on July 17th if installment not made.

Lenders are reminded that if a Trial Plan breaks the Lender still has the ability to review the Borrower for all Options within the Loss Mitigation waterfall.

2. Are all loans expected to be no more than 12 months delinquent before and during the Trial Modification period?

Answer: The Trial Payment Plan is not a Special Forbearance so the characteristics are different when addressing the “current” delinquency.

For a Trial Payment Plan with a resulting cure of a Loan Modification there is no limit on the amount of the “current” mortgage delinquency.

For a Trial Payment Plan with a resulting cure of a Partial Claim the delinquency cannot exceed the 12 month mortgage delinquency requirement.

3. Are Trial Plan Payments to be applied or held in suspense during the Trial Plan period?

Answer: Trial Plan Payments are to be held in suspense until a “full” contractual payment has been received and then that full payment should be applied to the loan’s oldest unpaid installment during the Trial Plan in the order specified in 24 CFR 203.24:

- (1) The mortgage insurance premium to be paid by Lender to the Secretary or to the monthly charge by the Secretary instead of the monthly mortgage insurance premium;**
- (2) Any taxes, special assessments, leasehold payments or ground rents, and fire, flood and other hazard insurance premiums, as required;**
- (3) Interest due under the Note;**
- (4) Amortization of the principal of the Note; and**
- (5) Late charges due under the Note.**

New Late Charges are to be waived for Borrowers who make the payments required under the Trial Plan.

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4. There are seven (7) bullet items listed within Mortgagee Letter 2011-28 giving specific circumstances where a Trial Payment Plan is required, the last bullet states the Lender can require a Trial Payment Plan if they feel it is necessary to have the Borrower demonstrate their ability to sustain the Modified payment; is a Trial Payment Plan required 100% of the time?

Answer: Mortgagee Letter 2011-28 permits, but does not require, Lenders to utilize Trial Payment Plans on all standard Loan Modifications and Partial Claims plans.

5. Is the 61 day/3 month for a Loan Modification and 91 day/4 month delinquency requirement for a Partial Claim still applicable for the incentive to be paid?

Answer: Yes, the minimum delinquency requirements are still applicable for the incentive claims to be paid. Lenders are reminded that HUD advised in Mortgagee Letter 2010-04 for Imminent Default that Lenders should attempt to resolve defaults of less than 61 days/3months through a short term Formal or Informal Forbearance Plan or by utilizing the FHA HAMP Option.

6. The Mortgagee Letter states that the final payment under the permanent Modification must be the same or less than the Trial Mortgage Payment, due to potential final escrow changes will HUD allow any variance to this?

Answer: Lenders are reminded that an escrow analysis should be done at the time the Trial Payment Plan is approved to make the final payment as accurate as possible. The PITI on the permanent Loan Modification must currently be at or below the PITI for the Trial Payment Plan.

If an analysis of several Lenders who have modified FHA loans over a calendar year (utilizing the market rate in Mortgagee Letter 2009-35) results in an overall net loss on secondary marketing trades for the period, FHA may consider amending Mortgagee Letter 2009-35, to permit the rate on the Trial Payment Plan to be more than 50 basis points above the Freddie Mae average rate rounded up to 0.125%.

7. Mortgagee Letter 2011-28 provides for 60 days following the completion of the Trial Plan to execute the Loan Modification or Partial Claim. Do Lenders still have an additional 60 days following the execution of the Modification or Partial Claim to file the incentive claim?

Answer: Yes

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8. Please clarify approval date on the Trial Payment Plan.

Answer: The “Approved” date is defined as when the Lender has completed their verification of the financial analysis, determined the Borrower qualifies and has actually offered the Trial Payment Plan to the Borrower.

9. Does the Lender get an automatic extension to first legal if the Trial Payment Plan fails?

Answer: Yes, as long as the Lender has initiated the Trial Payment Plan and has reported the action to the Single Family Default Monitoring System. The Lender is eligible to receive a 90 day extension to either commence or recommence foreclosure or initiate another Loss Mitigation Option.

10. Does the new Code AQ-Option Failure close the default episode?

Answer: No, the AQ Code is an indicator advising HUD that the Borrower failed to perform under the terms of the Loss Mitigation Option utilized. This Code is not a Default Close Code.

11. Should the AQ Default Status Code be reported even if a Formal Forbearance, Repayment Plan, or Type 1 Special Forbearance fails?

Answer: Yes, the AQ Default Status Code advises HUD that Early Intervention efforts and/or Loss Mitigation Option has failed.

12. Is the Default Status Code 09-Special Forbearance now obsolete with the addition of the 08-Type II Special Forbearance/Trial Payment Code?

Answer: No, the Default Status Code 09-Special Forbearance is to be used to report the Type 1 – Special Forbearance Option only. The “new” Default Status Code 08 represents the use of either the Type II Special Forbearance Option OR the Trial Payment Plan Option; and, subsequently would be followed by a Code 28-Modification Started or a Code 10-Partial Claim Started with a “final” Code 98 once the Loss Mitigation Option reinstates the loan. If the effort fails the new Code AQ-Option Failure would follow the previously reported Status Code.

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13. Is there any occasion that an AQ-Option Failure and an AO-Ineligible for Loss Mitigation would both be reported on the same case?

Answer: If the Loss Mitigation effort fails the Default Status Code AQ-Option Failure would be reported to HUD then the additional Loss Mitigation Options should be considered. If after review the Borrower is found to be ineligible or fails to provide adequate financial information, an AO-Ineligible for Loss Mitigation would be reported. The natural course of reporting would anticipate that the AO would be followed by a Code 68-First Legal Filed to Commence Foreclosure.