

Guidance	USDA Rural Development/Special Loan Servicing
Eligibility – Lender (Loan Holder/Loan Servicer)	The Lender must be a Section 502 Single Family Housing Guaranteed Loan Program approved Lender.
Eligibility – Borrowers	<p>The current borrower(s) on the existing Rural Development (RD) guaranteed single family mortgage must be identical to the borrower(s) on the modified mortgage.</p> <p>The borrower(s) must be facing imminent default or be in default. A borrower is in default if that borrower is 30 days or more past due on the mortgage obligation. A borrower is “facing imminent default” if that borrower is current or less than 30 days past due on the mortgage obligation and is experiencing a significant reduction in income or some other hardship that will prevent him or her from making the next required payment on the mortgage during the month in which it is due.</p> <p>The borrower must occupy the property as the borrower’s primary residence at the time of the special loan servicing and intend to continue occupying the property as his or her primary residence. The borrower must also demonstrate the ability to make the modified mortgage payments.</p>
Eligibility – Existing Mortgage	In order to be eligible, a mortgage must be a RD Section 502 Guaranteed Single Family mortgage. There is no net present value (NPV) test for eligibility.
Eligibility – Maximum Mortgage Amounts	Not applicable (there is no maximum mortgage amount).
Eligibility – Modified Mortgage	The Lender must consider the following traditional servicing options before considering special loan servicing: a repayment agreement, a special forbearance agreement, and a loan modification plan with a term not to exceed 30 years from the date of the original loan. Then the Lender may consider an extended-term loan modification. If the targeted mortgage payment to income ratio cannot be achieved using an extended-term loan modification, then the Lender may consider a mortgage recovery advance in addition to the extended-term loan modification. Before considering a mortgage recovery advance, the Lender must reduce the interest rate to the maximum allowable interest rate and extend the repayment term for 30 years from the date of loan modification. The Lender may reduce the interest rate further and/or extend the term of the loan for up to 40 years from the date of loan modification at the Lender's option, but the Lender shall not be required to do so before utilizing a mortgage recovery advance. This will afford Lenders the flexibility to adhere to specific investor loan modification term extension requirements.
Property Eligibility	At the time of the special loan servicing, the borrower must occupy the property as the borrower's primary residence and intend to continue occupying the property as such.

Interest Rate – Modified Mortgage	The interest rate must be fixed and meet the guidelines in the final rule (75 FR 52429; 7 CFR 1980.373). RD may establish the maximum allowable interest rate in an extended-term loan modification by publishing a notice in the Federal Register describing how to calculate the maximum allowable interest rate. If the maximum allowable interest rate has not been established by notice in the Federal Register, the maximum allowable interest rate shall be 50 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) rate for 30-year fixed rate mortgages (U.S. average), rounded to the nearest one-eighth of one percent (0.125%) as of the date the loan modification is executed. The maximum allowable interest rate shall never exceed the original note rate. At this time, RD has not established a rate by notice in the Federal Register, so the rate described in the rule applies.
Current Loan to Value	There is no current loan to value requirement.
Loan Purpose	Mortgages modified using RD Special Loan Servicing are required to have a lower monthly mortgage payment than the unmodified mortgage.
Lien Priority	All existing subordinate financing must be re-subordinated to maintain the first lien priority of the modified mortgage. For more information, please see Loss Mitigation Administrative Notice #4433 (or any Administrative Notice that replaces #4433).
Credit History	No minimum credit score is required. (Credit report is only used to verify recurring debts.)
Property Valuation	No property valuation is required.
Trial Modification	<p>Prior to modifying a loan using RD Special Loan Servicing, the Lender must have the borrower complete a trial period during which the borrower makes the monthly mortgage payment they would make under the modified mortgage.</p> <p>For borrowers who are in default when special loan servicing is initiated, the trial period must be three months in length. The Lender cannot modify the loan using special loan servicing unless the borrower makes all three trial payments on time.</p> <p>For borrowers facing imminent default when special loan servicing is initiated, the trial period must be four months in length. The Lender cannot modify the loan using special loan servicing unless the borrower makes all four trial payments on time.</p>
Documentation Requirements	<p>To be considered for special loan servicing, the borrower(s) must provide detailed financial information to the Lender.</p> <p>Lenders may collect financial information from borrowers either in writing or during a telephone interview. Regardless of how the borrower's financial information was secured, the Lender must independently verify the financial information.</p> <p>For most borrowers, the Lender must verify the borrower's income by obtaining documents such as the borrower's current pay stub and most recent IRS Form W-2. For borrowers who are self-employed, the Lender must verify the borrower's income by obtaining documents such as the borrower's profit and loss statements for the year to date and the previous year and the borrower's signed tax return for the previous year.</p> <p>The Lender must obtain a credit report to validate monthly installment debt, revolving debt, and secondary mortgage debt.</p>

	<p>The credit report may be used only in order to determine total indebtedness. A borrower's credit score obtained from any credit repository will not be considered in determining whether a borrower is eligible for RD Special Loan Servicing</p> <p>RD will consider additional forms of verification the Lender deems appropriate in the analysis of the borrower's ability to support the debt.</p> <p>The borrower's financial information must be submitted to the USDA Single Family Housing Guaranteed Loan Program's Centralized Servicing Center for review. Based on this and other information, RD will determine whether to approve or deny the proposed loan modification. Lenders must receive written approval from RD prior to servicing a borrower's account with special loan servicing. Submit the information to the following address:</p> <p style="text-align: center;">Centralized Servicing Center USDA, Rural Development E-Mail: guarantee.svc@stl.usda.gov Fax Server Phone No.: 314-457-4463 or 314-457-4473 Mailing Address: 4300 Goodfellow Blvd. Building 105E, FC 225 St. Louis, MO 63120-1703</p> <p>Questions relating to Documentation Requirements should be directed to the Centralized Servicing Center customer service telephone line at (866) 550-5887.</p>
<p>Reimbursement for Mortgage Recovery Advances</p>	<p>To file a claim for reimbursement of a mortgage recovery advance, the Lender must submit a claim to RD within 60 days of the advance being executed by the borrower through his or her signature on the promissory note. When filing the claim for reimbursement with RD, the Lender must submit the original promissory note and a copy of the filed mortgage or deed-of-trust. When filing the claim for reimbursement with RD, the Lender must also submit a summary of the amount of the funds advanced, including the monthly PITI and principal deferment (if applicable), and other account information indicating the borrower's arrearage before the advance, as well as the present status of the account as of the date of the advance; the name, address, and tax ID number for the Lender; and the name, address, and phone number of a contact person for the Lender who can answer questions about the reimbursement request.</p> <p>The complete claim, including all supporting documents referred to above, must be submitted within 60 days of the execution of the mortgage recovery advance. All required documentation must be submitted to the Centralized Servicing Center for reimbursement. Please refer to the Documentation Requirements section of this guidance for address and contact information.</p> <p>The Lender may file a claim for reimbursement of up to \$250 for a title search and/or recording fees in connection with the promissory note and mortgage or deed-of-trust. These claims are not part of the mortgage recovery advance and must be submitted in accordance with 7 CFR § 1980.376.</p>
<p>General Underwriting Requirements for a Mortgage Recovery Advance &</p>	<p>Mortgage recovery advance processing and underwriting instructions are described below.</p> <ul style="list-style-type: none"> • If the targeted mortgage payment to income ratio cannot be achieved using an extended-term loan modification, then the Lender may consider a mortgage recovery advance in addition to the extended-term loan modification. Before considering a mortgage recovery advance, the Lender must reduce the interest rate to the maximum allowable interest rate and extend the repayment term for 30 years from the date of loan modification.

<p>Example of the Calculation of a Maximum Mortgage Recovery Advance</p>	<ul style="list-style-type: none"> • The maximum mortgage recovery advance (up to 30 percent of the unpaid principal balance as of the date of default) consists of the sum of arrearages not to exceed 12 months of PITI; legal fees and foreclosure costs related to a cancelled foreclosure action; and principal reduction. • The principal deferment on the modified mortgage is determined by multiplying the unpaid principal balance by 30 percent and then reducing that amount by arrearages advanced to cure the default and any foreclosure costs incurred to that point. The principal deferment amount for a specific case shall be limited to the amount that will bring the borrower's total monthly mortgage payment (PITI) to 31 percent of gross monthly income. <p>Please see the following example of the calculation of a maximum Mortgage Recovery Advance when utilizing the Special Loan Servicing:</p> <ul style="list-style-type: none"> • Unpaid Principal Balance = \$150,000 • Current Monthly Payment (PITI) = \$1,220 (P&I = \$920 + TI = \$300) • Current Other Recurring Debt = \$800 • Monthly Gross Income = \$3,500 • Number of Payments Past Due = 3 • Total Arrearage = \$3,660 • Maximum Mortgage Recovery Advance = \$150,000 x 30% = \$45,000 • Maximum Monthly PITI = \$3,500 x 31% = \$1,085 (Front Ratio) • Maximum Total Monthly Debt = \$3,500 x 55% = \$1,925 (Back Ratio) <p>The borrower may not be charged any additional costs for receiving a Mortgage Recovery Advance. Lenders are reminded that in order for cancelled foreclosure costs to be included in the Mortgage Recovery Advance, the cancelled foreclosure must have been initiated prior to special loan servicing and all such costs must reflect work actually completed prior to the date of the foreclosure cancellation. All documentation supporting the decision to provide a Mortgage Recovery Advance must be maintained in the servicer's loan documentation file.</p>
<p>Mortgage Recovery Advance Guidelines</p>	<p>No interest will accrue on the Mortgage Recovery Advance. The payment of the Mortgage Recovery Advance is not due until the earliest of (i) the maturity of the modified mortgage, (ii) the borrower transfers title to the property (by sale or by other voluntary or involuntary means), or (iii) a pay-off of the mortgage. Lenders may use HUD's Partial Claim documents for the Mortgage Recovery Advance promissory note and mortgage or deed of trust.</p>

	<p>The promissory Note and mortgage or deed of trust should be made payable to the:</p> <p style="text-align: center;">United States of America, acting through the Rural Housing Service (and its successors)</p> <p>The borrower must send payment directly to RD at:</p> <p style="text-align: center;">USDA, Rural Development Guaranteed Loan Branch – FC 350 P.O. Box 200011 St. Louis, MO 63120-0011</p> <p>Any notice given to RD should be sent to the attention of the Loss Claims Department at the Centralized Servicing Center. Please refer to the Documentation Requirements section of this guidance for address and contact information.</p>
<p>Prioritization of Loss Mitigation Alternatives</p>	<p>The Lender must consider the following traditional servicing options before considering special loan servicing. The Lender must consider loan servicing options in the following order:</p> <ol style="list-style-type: none"> 1. A repayment agreement, a special forbearance agreement, and a loan modification plan with a term not to exceed 30 years from the date of the original loan (Final Rule; see also Administrative Notice #4433, or any Administrative Notice that replaces #4433) 2. RD Special Loan Servicing (Final Rule) <p>RD encourages Lenders to consider Special Loan Servicing before a Pre-Foreclosure Sale or Deed-in-Lieu of Foreclosure (see Administrative Notice #4433, or any Administrative Notice that replaces #4433).</p>
<p>Underwriting – Gross Monthly Income</p>	<p>Gross monthly income includes the following, with respect to the borrower and any co-borrower(s):</p> <ol style="list-style-type: none"> 1. The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services; 2. For self-employed borrowers, the net income from operation of a farm, business, or profession; 3. Interest, dividends, and other net income of any kind from real or personal property (for example, investment income and rental income); 4. Benefit income, including the full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts; and 5. Alimony and/or child support.
<p>Underwriting – Front End Mortgage Payment to Income Ratio</p>	<p>The Front-End ratio (mortgage payment to income ratio) is the ratio of the borrower’s monthly mortgage payment (principal, interest, taxes, and insurance (PITI)) to the borrower’s gross monthly income.</p> <p>Special Loan Servicing must be used to bring the Front-End ratio as close as possible to, but not less than, 31%.</p>

Underwriting - Back End Total Debt to Income Ratio	<p>The Back-End ratio (total debt to income ratio) is the ratio of the borrower's total recurring monthly debts (such as the borrower's monthly mortgage payment (PITI), payments on all installment debts, monthly payments on all junior liens, alimony, car lease payments, aggregate negative net rental income from all investment properties owned, and monthly mortgage payments for second homes) to the borrower's gross monthly income. This ratio must not exceed 55% after special loan servicing.</p> <p>The Lender must validate monthly installment debt, revolving debt, and secondary mortgage debt by pulling a credit report for each borrower or a joint report for married co-borrowers. The Lender must also consider any information obtained from the borrower orally or in writing concerning monthly obligations.</p>
Underwriting – Subordinate Financing	<p>Payments on subordinate mortgages are not included in the Front-End ratio, but they are included in the Back-End ratio.</p>
In Foreclosure Process	<p>If the foreclosure process has already begun, the Lender should not proceed with the foreclosure sale until the borrower has been evaluated for Special Loan Servicing and, if eligible, an offer to participate in the RD Special Loan Servicing has been made. Please refer to Administrative Notice #4433 (or any Administrative Notice that replaces #4433) for information regarding other loss mitigation alternatives.</p>
Escrows	<p>Lenders are required to escrow for borrowers' real estate taxes and mortgage-related insurance payments.</p>
Unpaid Late Fees	<p>Late fees should not be capitalized into the modified loan or included in a mortgage recovery advance.</p>
Credit Report	<p>The Lender must cover the cost of the credit report.</p>
Borrower Cash Contribution	<p>The Lender should not require the borrower to contribute cash to pay down arrearages prior to a loan modification.</p>
Disclosure	<p>When promoting or describing RD mortgage options, Lenders should provide borrowers with information designed to help them understand the mortgage terms that are being offered. Lenders also must provide borrowers with clear and understandable written information about the terms, costs, and risks of the mortgage in a timely manner to enable borrowers to make informed decisions.</p> <p>RD requires Lenders to comply with any disclosure or notice requirements applicable under RD regulations and state or federal law.</p>
Data Collection	<p>Lenders will continue to be required to collect and transmit borrower and property data in order to ensure compliance with program requirements as well as to measure the program's effectiveness. Data elements may include data needed to perform underwriting analysis and mortgage terms.</p>