

FHA Default Servicing Overview

December 3, 2020

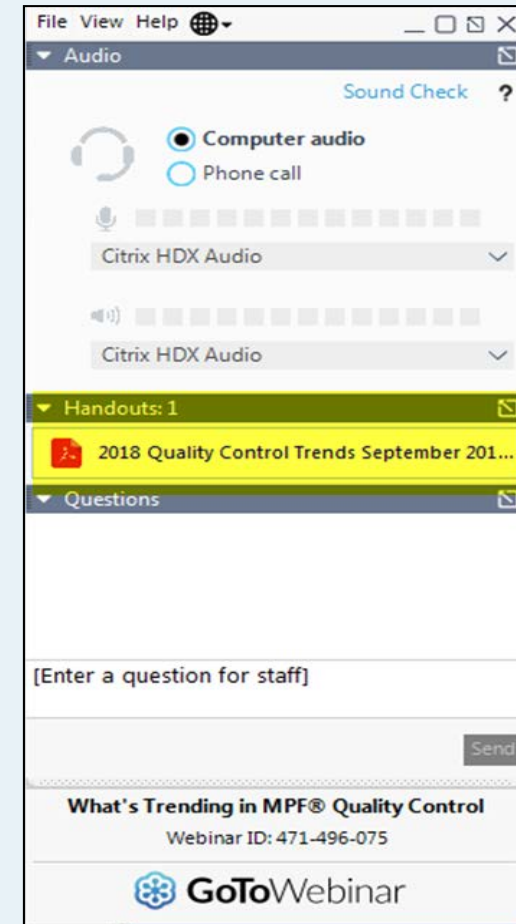


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About SitusAMC

SitusAMC is the leading independent provider of Commercial & Residential Real Estate Advisory, Strategic Outsourcing, Talent and Technology Solutions, supporting the entire life cycle of real estate debt and equity.

They help their clients Realize Opportunities in their businesses through Dynamic, Technology-Enabled Solutions that deliver Superior Outcomes, helping Maximize Returns, Minimize Costs and Risk, Scale Operations, Capture Untapped Value and Fuel Transformation.



Our Presenters



John Wadle

Director of Servicing Quality Control

John Wadle is the Director of Servicing Quality Control and Oversight for SitusAMC. Mr. Wadle leads team of talented servicing professionals who ensure the timely and successful delivery of SitusAMC servicing quality control, verification agent, and oversight products and solutions according to client needs. He is a trusted advisor to SitusAMC's clients.

Our Presenters



Ann Green

Assistant Vice President of Servicing Quality Control for Default and Loss Mitigation

Ann leads a team of talented loss mitigation and default analysts to ensure the quality of the audit reviews in accordance with investor guidelines. Providing feedback to clients within a timely manner to ensure SitusAMC's clients expectations are met. Ann is also responsible for reviewing and implementing new/revised compliance guidelines and agency requirements into review scopes that apply to loss mitigation and default and ensure the analysts are informed and trained on all changes. She is the Subject Matter Expert for the Loss Mitigation and Default areas of servicing.

Our Presenters

Scott Greenwood

Senior Analyst, Servicing Quality Control

Scott Greenwood is a Servicing Quality Control Senior Analyst for SitusAMC. Scott's focus includes default and loss mitigation including collections, foreclosure, claims, and bankruptcy. Scott provides SitusAMC auditors with loan-level support in internal QC to ensure reviews are completed timely and accurately. Scott supports SitusAMC clients with additional information on servicing exceptions identified during audits and helps ensure adherence to investor guidelines by providing insight on defects. Scott also assists clients with Servicing Oversight functions that focuses on loan and pool-level performance.

Greg Conklin

Analyst, Servicing Quality Control

Greg Conklin is a Servicing Quality Control Analyst for SitusAMC. Greg works exclusively with default loans and on various special projects for clients. Greg performs collections and foreclosure reviews, assists with providing clients additional information on exceptions, and helps ensure adherence to investor guidelines by providing testing script updates for the team.



FHA Default Servicing

- Credit Reporting
- Borrower Outreach
- Solicitations/Letters/Notices
- Property Inspections
- Delinquency Reporting



FHA Default Servicing

Credit Reporting

Reporting to the Credit Bureau should occur on a monthly basis

- The loan must be reported to the credit bureau when the loan is 31 or more past due.
- If the loan is in a *Presidentially-Declared Major Disaster Area* (PDMDA), suspend reporting of delinquencies to consumer reporting agencies for a Borrower who is granted disaster-related Mortgage Payment relief.
- COVID-19 CARES ACT: If the loan was current (less than 30 days delinquent as of March 13th 2020) report the loan to the credit bureaus as 11 – Current if placed on a Covid-19 Forbearance Plan.
- If the loan was NOT current as of March 13th 2020, report the correct delinquency status to the credit bureaus when the COVID-19 National Emergency was declared (3/13/2020)
 - ✓ Example: If borrower was 60 days past due as of 03/13/2020 - report the loan as “78 - 60 days past due”

Early Intervention for FHA Loans

Payments for FHA loans are due on the 1st day of each month

- If a payment is not made on the first of the month, it is technically considered to be late on the 2nd day of the month.
- If a payment is not made, the Servicer must begin attempts to make telephone contact with the borrower by the **17th - 20th** day of delinquency.
- Contact attempts must continue to be made at a minimum of **two times per week** until:
 1. Contact is established or;
 2. The Servicer has determined through an occupancy inspection that the property is vacant or abandoned.
- Contact attempts should be made at varying times and days of the week.
- All telephone communication efforts must be documented in the servicing file.
- Have documented policies and procedures for the control to ensure contact attempts are conducted in accordance with these requirements (i.e. what reports are used to track, any dialer used).

Early Payment Defaults and Re-Defaults- FHA

Whenever a loan is delinquent during the first six months, it is at risk of becoming an early payment default

- Early payment defaults (EPD) are loans that become 60 days delinquent within the first six months.
- When a loan is at risk of becoming an EPD, Servicers must begin telephone contact by the **10th** day after a payment is missed.
- The same applies to loans at risk of a *re-default*.
 - ✓ Re-defaults are defaults that occur within six months after reinstatement or the successful use of a permanent home retention option.
 - ✓ Borrower contact must begin by the **10th** day after a payment is missed.
- Calls must continue until either contact is established, it's been determined that the phone number is no longer valid or it's been determined by inspection that the property is vacant or abandoned.



Late Charge Assessment

Late Charges may be assessed if the payment is not made on or before the expiration of the grace period (note: Certain state restrictions may exist with more stringent late charge parameters).

- If the mortgage was assigned a case number on or after March 14, 2016, the late charge is 4% of the overdue payment of Principal and Interest (P&I).
- If the mortgage was assigned a case number before March 14, 2016, the late charge is 4% of the overdue payment of Principal, Interest, Taxes and Insurance (PITI).
- The servicer must provide the borrower with advance written notice before collecting the late charge or returning a mortgage payment to the borrower for failing to pay the late charge. This is usually accomplished via verbiage included on the periodic statement.

Note: Application of Subsequent Payment to Unpaid Late Charges after advance notice has been sent to the Borrower, the servicer may:

- ✓ Treat any subsequent payment that does not include the Late Charge in accordance with HUD's Partial Payment section; and
- ✓ Deduct amounts due for Late Charges owed for a previous installment.

ATTACHMENT: Advance Written Notice – Returned Payment Example

Borrower Notifications- Day 20

The Servicer must begin mail or electronic communication collection attempts between the 20-25th day of delinquency.

Electronic methods may include:

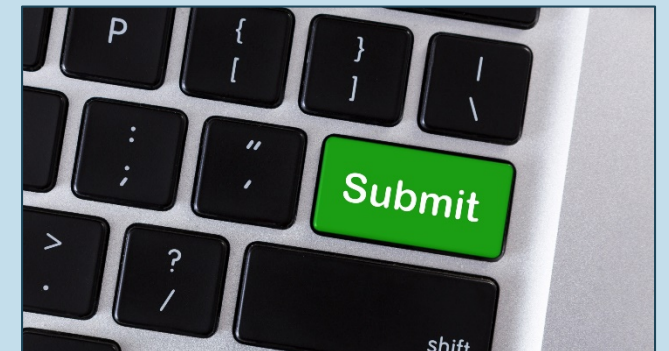
1. Email
2. Secure Web Portals
3. Other reliable communication methods that the Servicer has used in the past.

The Servicer must use the method or methods of communication most likely to receive a response from each borrower and take into account the borrower's expressed preference for using certain methods of communication.

Reporting Delinquent Loans to HUD

By the 30th day of delinquency, delinquent loans must be reported to the *Single Family Default Monitoring System (SFDMS)*

- If the reason for default is known, the appropriate Default Status Code and Default Reason Code must be provided.
- The Servicer must continue to report the applicable Status Code until the delinquency is resolved.
- Servicers must submit delinquency data documenting loan status as of the end of the month.
- Data must be submitted by the 5th business day of the following month. (i.e. November 2020 reporting must be submitted by December 7th.)
- Mortgagees may submit additional delinquency data throughout the month.



Borrower Notifications – Day 32 - 45

Beginning on the 32nd day but no later than the 45th day of delinquency, the borrower must be sent the following:

- *Notice of Homeownership Counseling Availability*
- *Servicemembers Civil Relief Act (SCRA) Disclosure* (HUD-92070)

Attachment: Loss Mit, SCRA, 9692HC, Cover Letter & Pamphlet

Example: If a payment is due Nov 1 and unpaid during the 45-day period after Nov 1, Servicers must provide written notice by December 15.

NOTE: You are not required to provide the written notice more than once during any 180-day period.

***Not required to be sent if no loss mitigation options are available and one of the following two conditions are met:*

- 1. Any borrower on the loan is a debtor in bankruptcy.*
- 2. The servicer is acting as a debt collector under the FDCPA with respect to the mortgage loan, and any borrower on the loan has invoked the FDCPA's cease communication protection with respect to the loan.*



Required Content of Notices:

Loss Mitigation Letter Sent by 45th Day of Delinquency:

- A statement encouraging the borrower to contact the servicer.
- The telephone number for personnel assigned to the borrower.
- The servicer's mailing address.
- If applicable, a statement providing a brief description of examples of loss mitigation options that may be available.
- If applicable, either application instructions or a statement informing the borrower how to obtain more information about loss mitigation option from the servicer.
- The website to access either the Bureau list or the HUD list of homeownership counselors or counseling organizations, and the HUD toll-free telephone number to access homeownership counselors or counseling organizations.
- Servicers may also include additional information that they determine to be helpful, or which may be required by applicable law or the owner or assignee of the mortgage loan.
- Lender's designated address for a Notice of Error or Request for Information.

Required Content of Notices:

Servicemembers Civil Relief Act (SCRA) Notice (Form HUD-92070) by the 45th day of delinquency:

- The SCRA Form HUD-92070 dated 12/2014 must include the Military OneSource toll free number.
- The notices can be sent beginning on the 32nd day, but no later than the 45th day of delinquency.

Notification to Homeowners of availability of Housing Counseling Services Notice (Form HUD-92070) by the 45th day of delinquency

Required Content of Notices:

Notification to Homeowners of availability of Housing Counseling Services. Must include the following or the lender must use the HUD Notice 9692HC (English) or other versions listed on ML 2015-04.

- Informs delinquent borrowers of the availability of housing counseling services provided by HUD-approved housing counseling agencies;
- Is provided in accessible formats or languages when such borrower communications have been requested by persons with disabilities and persons with limited English proficiency;
- Provides instructions for locating a HUD-approved housing counseling agency in the borrower's area and includes the HUD toll-free telephone number (800) 569-4287 through which borrowers can obtain a list of housing counseling agencies;
- Provides instructions for persons with hearing or speech impairments to access HUD's toll-free number via TTY by calling the Federal Information Relay Service at (800) 877-8339;
- Provides instructions for using the HOPE NOW toll-free telephone number (888) 995-HOPE (4673); and describes housing counseling and the potential benefits of engaging in housing counseling.
- Any of these items can be in a letter or an attachment.
- Note, the lender cannot alter the HUD Notification 9692HC
- Sent beginning on the 32nd but no later than the 60th day of delinquency

Making Contact

When contact with the borrower is made, Servicers should obtain and provide the following information:

1. Is the borrower occupying the property? (document/Update Occupancy Status in system)
2. What is the primary reason for the delinquency? (document/update RFD in system)
3. Inform the borrower about the availability of loss mitigation options.
4. If there was communication with an Authorized Third Party, document the authorization in the file.
 - ✓ A copy of a signed authorization from the Borrower;
 - ✓ A copy of a Power of Attorney (POA), order of guardianship, or other documentation authorizing that third party to act on behalf of the Borrower; or
 - ✓ Other documentation showing legal authorization to access the borrower's records.

Verbal financial information should be obtained to determine if the borrower is eligible for a forbearance plan.



Borrower Contact – Day 36

By the 36th day of delinquency, the Consumer Financial Protection Bureau (CFPB) requires Servicers to make a good faith effort to establish live contact with borrowers to discuss loss mitigation options.

Contact is not required if:

1. Any borrower on the loan is in bankruptcy.
2. The borrower invokes the Fair Debt Collection Protection Act cease communication provision (applies to Servicers covered by the FDCPA).
 - ✓ This needs to be clearly documented in the servicing system and imaging system
3. The borrower has already applied for a loss mitigation option prior the 36th day of delinquency.
4. The borrower doesn't qualify for any loss mitigation options.

Between the 30th and 59th day of delinquency, if the contact number is invalid, the servicer must make reasonable efforts to obtain an alternate phone number and/or follow up with the borrower using other methods of communication until contact is established (skip tracing, approved email, electronic or written notices).

Occupancy Status

If the Servicer has been unable to reach the borrower by the 45th day of delinquency, an initial occupancy inspection should be performed

- Initial occupancy inspections are based on visual observations.
- Occupancy status should be determined by the 60th day of delinquency.
 - ✓ If the Servicer is unable to determine the status through an initial occupancy inspection, the Servicer should perform occupancy follow-ups.
 - ✓ A follow-up is an attempt to communicate with the borrower via letter, telephone, or other method of communication.
 - ✓ If follow-up methods are unsuccessful, occupancy inspections should continue every 25-35 days from the last inspection.



General Property Inspection Requirements

Servicers must include the following on each inspection report:

- Date of inspection
- Name of inspector or inspection company
- Occupancy status (is the property occupied?)
- Is the house locked/secured?
- Is the grass mowed and shrubs trimmed?
- Is there any apparent damage?
- Is any exterior glass broken?
- Are there any apparent roof leaks?
- Does the home contain personal property or debris?
- Are any of the windows or doors boarded up?
- Is the home winterized?
- Are there any repairs needed to preserve and protect the property? **If so, any actions taken to protect the property must be documented.**



Vacant or Abandoned Properties

When a property has been determined to be vacant or abandoned, the following must be completed:

- Send a letter via *certified mail* (or similar that provides a delivery confirmation) to the borrower at the property address informing them of the determination that the property is vacant or abandoned.
 - ✓ The letter must include the Servicer's contact information.
- Begin vacant property inspections.
- Secure the property within 15 business days following the date the property was determined to be vacant or abandoned.
- Attach 24-hour emergency telephone contact information in a weather-tight window or door within 15 business days of the date the property was determined to be vacant or abandoned.

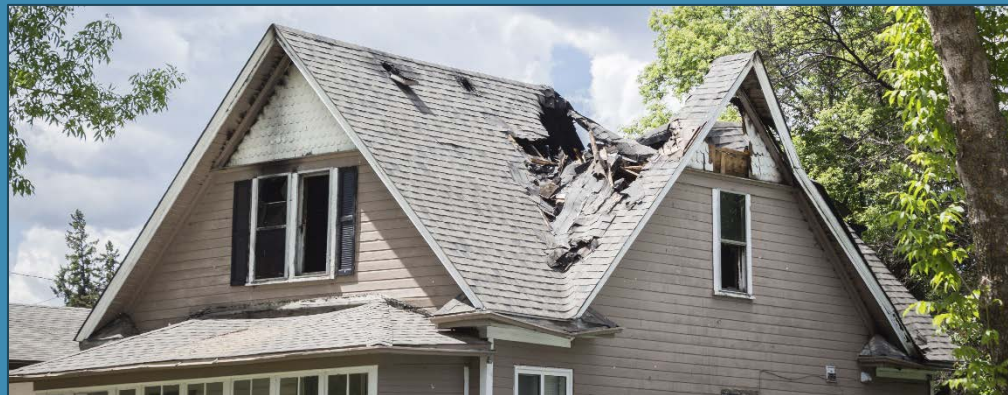
The above list represents partial information. Additional items required to address urgent hazard and ensure safety issues may be required. Refer to the FHA Single Family Housing Policy Handbook for specific details.

Attachment: Vacant Determination Letter

Vacant or Abandoned Properties

Inspection Requirements/Actions

- Servicers must document the overall condition and any damage to the grounds and structures in the inspection report.
- Photograph the overall condition of the interior and exterior of the primary and all secondary structures.
- Monitor the security and maintenance of the property, assess and manage damage that requires repair, replacement or removal.
- Address all emergency repairs.



Borrower Contact

The Servicer must have a face-to-face interview with the borrower or make a reasonable effort to arrange a face-to-face interview no later than the 61st day of delinquency, unless exempt.

A face-to-face interview is not required if:

- The borrower does not live in the mortgaged property;
- The Servicer/Mortgagee or branch office of either is not located within 200 miles of the mortgaged property.
- The borrower has clearly indicated that they will not cooperate with a face-to-face interview.
- The borrower's payment is current due to an agreed-upon repayment plan or forbearance plan.

COVID-19 Update: Waived for twelve months beginning March 13, 2020**

**Servicers must establish contact through alternative means or methods – such as phone interviews, email, or video calling services such as Skype, Zoom, WebEx, or FaceTime.

Attachment: Face to Face Letter

Handoff to Loss Mitigation:

Between the 30th and 59th day of delinquency, if contact was made with the borrower, the servicer must obtain financial information to determine loss mitigation options.

- **Note:** The Mortgagee's servicing records must include monthly notations, documenting the Mortgagee's analysis and determination with respect to the appropriateness of each Loss Mitigation Option. If the Borrower indicates that there has been no change in their circumstances, the Mortgagee may note this in its records.

Beginning on the 45th day after the date the payment was due, if the servicer has received the borrower's financial information, the servicer must commence its analysis of those financials to identify appropriate loss mitigation options.

- **Note:** If contact is made, verbal financial information should be obtained to determine if the borrower is eligible for an informal/formal forbearance plan.

Summary

Key Concepts:

- **Servicing Comments:**

- Ensure servicing comments capture any activity on the loan for audit purposes. Have a documented policy and procedure for what is to be included in servicing comments to ensure uniformity among personnel as well as compliance with required information.

- **Policies and Procedures:**

- Ensure P&P's are updated regularly to capture changes to servicing requirements and the impact on servicing activities undertaken by servicing personnel. P&P's and actual servicing activity should reflect consistency between expected outcomes and observed practices. (Ensure there is no misalignment between P&P and actual servicing activity).



Key Concepts (continued):

Vendors:

- Any vendors utilized in the default servicing space should be audited regularly to ensure compliance with FHA Guidelines (i.e. Property Preservation or Letter Vendors).

Identify Key Controls:

- Ensure that key controls are developed and utilized to help identify and monitor compliance.
 - ✓ i.e. what reporting do you have that identifies loans with no contact? What exception reports exist to track and monitor any missed timelines?

Records maintenance:

- Ensure any letters/notices/solicitations are logged in the servicing system and copies are stored timely in a database/imaging system/loan file.

Document Requests for FHA Collections Audit

- **Collection Comments**: Should include all borrower contact attempts whether successful or not, and the results of any borrower contact including the RFD, Occupancy, Loss Mit discussions, and a recap and summary.
- **Payment History**: should include all transactions on the loan involving borrower payments and disbursements.
- **Credit Reports**: evidence of what was reported to the bureaus for the time period requested.
- **Collection notices and letters**: including HUD Required Pamphlet, Solicitation, SCRA, Cover Letters, Face to Face request

Document Requests for FHA Collections Audit (continued)

- **Property Inspections**: Evidence of all property inspections ordered and the results (screen prints of amounts charged)
 - ✓ Evidence if the property is vacant, pressure-test all water supply and upload photographs of the results of the test into P260.
- Evidence of **Late Charge** (calculation screen from servicing system)
- Copy of **Original Note**
- **SFDMS** (delinquency status report from FHA Connection) for months covered in the review (i.e. Q3 would be what was reported in Aug, Sept, and Oct for the July, Aug, and September periods).
- Copy of the **demand/breach letter** sent to the borrower.



MPF Contacts and Resources

MPF Service Center

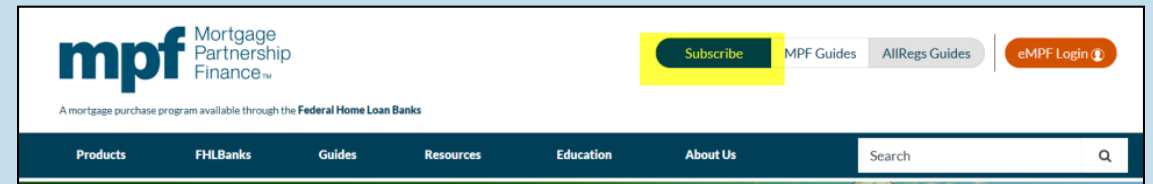
Email - MPF-Help@FHLBC.com

Hours - 8:30 am to 4:30 pm CST

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