Is an FHA Loan Foreclosure Different Than Other Foreclosures?

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If you have an FHA loan, you're entitled to a special loss mitigation process to help you avoid a foreclosure. But the foreclosure itself isn't any different.

If you have a mortgage loan that the Federal Housing Administration (FHA) insures and you're delinquent in payments or about to fall behind, you're entitled to a particular loss mitigation process to help you avoid a foreclosure. The U.S. Department of Housing and Urban Development (HUD) requires loan servicers to attempt to prevent foreclosures on FHA-backed home loans using the process described briefly below.

In fact, servicers must proactively solicit borrowers for loss mitigation and make affirmative efforts to cure a loan default. But if you can't work out a solution to your mortgage delinquency, the foreclosure will go forward under state law—the same as any other foreclosure.

However, if the servicer failed to comply with HUD's loss mitigation guidelines, you might have a defense to the foreclosure.

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How FHA-Insured Loans Work

FHA provides mortgage insurance to approved lenders, which offer FHA-backed (insured) mortgages to borrowers. Lenders can provide FHA loans to borrowers who otherwise might not qualify for a mortgage because the loans are less risky to the lender. FHA will cover the losses if the borrower defaults.

FHA Loan Terms

FHA lenders can offer borrowers good terms, including a low down payment—as low as 3.5% of the purchase price. This type of loan is often easier to qualify for than a conventional mortgage, and anyone can apply. Borrowers with a FICO credit score as low as around 500 might be eligible for an FHA loan.

But FHA loans have a maximum loan limit that varies depending on the average cost of housing in a given region.

Borrowers Must Pay MIP

With an FHA loan, borrowers must pay MIP (mortgage insurance premium) as part of the loan. (Conventional mortgages have PMI, while FHA loans have MIP.)

The premiums that borrowers pay contribute to the Mutual Mortgage Insurance Fund. FHA draws from this fund to pay lenders' claims when borrowers default.

Special Foreclosure Protections for Borrowers With FHA-Insured Loans

Because FHA will likely lose money if you stop making your mortgage payments, the agency has established a process to help homeowners avoid foreclosure. Under HUD policy (FHA is part of HUD), in most cases, the servicer must review a borrower who has an FHA-insured loan and is behind in payments or about to fall behind, for loss mitigation options.

The servicer has to evaluate the borrower using a "waterfall," a series of steps, to determine which, if any, of the options listed below are appropriate.

> **Important Note**
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> As of April 30, 2023, servicers must evaluate eligible borrowers, including non-occupant borrowers, who are in default or facing imminent default using FHA's COVID-19 loss mitigation waterfall process, regardless of the cause of the borrowers' financial difficulties. These temporary options, which were previously scheduled to expire at the end of the COVID-19 national emergency, will be available through April 30, 2025. The COVID-19 waterfall temporarily replaces the general waterfall process described below.

How the Waterfall Process Works

During the waterfall process, the servicer must evaluate the borrower for loss mitigation alternatives in a specific order. Once a borrower is deemed eligible for a particular option, the evaluation stops. The process involves a complex string of calculations to determine which option, if any, is most appropriate for the borrower.

Waterfall options and priority. Under the waterfall, the servicer evaluates whether a borrower is eligible for one of the following options (generally in the following order):

- forbearance (informal, formal, or a special forbearance)
- repayment plan
- loan modification
- partial claim (a no-interest, second mortgage payable to HUD that brings the loan current and comes due with the first mortgage is paid off)
- loan modification plus partial claim
- pre-foreclosure sale (short sale), or
- deed in lieu of foreclosure. (Learn more about loss mitigation options for homeowners with FHA loans in Help for Homeowners With FHA Loans.)

Federal law provides time for the loss mitigation process before a foreclosure can start. Under federal law, most homeowners, including those with FHA loans, get 120 days to work out an alternative to foreclosure before the foreclosure begins. But if you can't work out one of the options above or another loss mitigation option, the foreclosure will start.

Foreclosure of FHA Loans

FHA loan foreclosures are generally the same as foreclosures of other types of loans. State law governs the process.

So, you'll get whatever foreclosure notices your loan contract and state law requires.

Getting Help

If you need help dealing with your loan servicer, want more information about different ways to avoid foreclosure, or are seeking information about how to fight a foreclosure, consider talking to a foreclosure attorney.

A HUD-approved housing counselor is another valuable resource of information.