FHA Expands and Extends COVID-19 Foreclosure Relief Options

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FHA is making its COVID-19 loss mitigation options available to everyone with an FHA-insured mortgage, regardless of the nature of their hardship.

The Federal Housing Administration (FHA) announced that its many COVID-19 mortgage relief options (such as those described below), including certain loan modifications and a particular partial claim option, are now available to all eligible borrowers with FHA-insured loans who get behind on their mortgage payments, regardless of what caused their delinquency.

In addition, FHA extended the availability of its COVID-19 mortgage relief options until April 30, 2025. These temporary COVID-19 options were previously set to expire when the COVID-19 national emergency ended on May 11, 2023.

Forbearances

Homeowners affected by COVID-19 were previously eligible for a COVID-19 forbearance. FHA says you had to request an initial COVID-19 forbearance from your mortgage servicer by May 31, 2023, and no COVID-19 forbearance period may extend beyond November 30, 2023.

If you don't qualify for a COVID-19 forbearance, you might be eligible for a different type of forbearance. During the forbearance period, the servicer can't add fees or penalties to your account or charge interest beyond the amounts scheduled or calculated as if you made all contractual payments on time and in full under the terms of the mortgage contract.

FHA's Loss Mitigation Waterfall Process

Following a forbearance, homeowners with FHA-insured loans can access several loss mitigation alternatives through FHA's "waterfall" process. Under the FHA's waterfall process, you can most likely avoid having to pay all of the overdue amounts right away when a forbearance ends.

In this process, the servicer must, subject to a few exceptions, evaluate the borrower to determine which, if any, of the below alternatives are appropriate. The servicer must evaluate the borrower for these options in a specific order. Once a borrower qualifies for a particular option, the evaluation concludes.

COVID-19 Advance Loan Modification

On June 25, 2021, HUD established the COVID-19 Advance Loan Modification (COVID-19 ALM). Under this modification program, eligible borrowers get a minimum 25% reduction of their monthly mortgage payment's principal and interest portion.

The program is automatic and is a pre-waterfall step: lenders must review eligible borrowers for this option and provide loan modification documents that will significantly reduce the borrowers' monthly payments. Borrowers don't need to contact their lender or servicer to get this modification.

To qualify, the property may be owner-occupied or non-owner-occupied, and the borrower must be 90 or more days delinquent. Borrowers who don't qualify for the COVID-19 ALM must be evaluated for the other COVID-19 loss mitigation options described below.

> **HUD Modification Policy If the Co-Borrower Is Absent**
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> Usually, all borrowers have to sign a loan modification. Otherwise, the lender won't modify the loan. So, if a co-borrower is unavailable due to death, divorce, or separation, the remaining borrower has historically had a tough time getting the loan modified.
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> Due to a policy change, HUD's Single Family Housing Policy Handbook, 4000.1, effective September 26, 2022, now says that FHA won't require certain unavailable co-borrowers to sign FHA loan modification paperwork. This change should help borrowers in that situation qualify for and get modifications more easily.

COVID-19 Recovery Standalone Partial Claim

If the borrower indicates an ability to resume making their pre-hardship mortgage payment, say, after their existing COVID-19 forbearance ends, servicers must review the borrower for a COVID-19 Recovery Standalone Partial Claim.

A partial claim is an interest-free loan from HUD that brings a first mortgage current by paying the overdue amounts. You don't have to repay the loan until the first mortgage is paid off, like when you sell the property. Sometimes, the servicer will complete a partial claim along with a modification.

The COVID-19 Recovery Standalone Partial Claim is limited to 30% of the borrower's unpaid principal balance.

Payment Supplement Option With Partial Claim

If you can't afford to resume making your regular payments after getting a partial claim, you might qualify for FHA's Payment Supplement option.

With this option, the partial claim will initially bring you current on your mortgage by paying off overdue amounts and then uses remaining partial claim funds to cover part of your mortgage payment each month, lowering your monthly payments. This option can lower your payments by as much as 25% for as long as three years. Then, you go back to making your regular payments.

Lenders can offer the Payment Supplement starting May 1, 2024, and they must start offering it by January 1, 2025. You won't qualify for this option if you've already used up your partial claim allowance (30% of your mortgage balance).

COVID-19 Recovery Modification

If the borrower can't afford the monthly payment amount and needs a loan modification, the servicer must evaluate the borrower for a COVID-19 Recovery Modification. This modification aims to reduce the principal and interest portion of the monthly mortgage payment by at least 25%. The COVID-19 Recovery Modification is a 360-month or 480-month modification and includes a partial claim, if available.

This modification is available to owner-occupied properties and properties that are not owner-occupied, like rental properties, secondary residences, and vacation homes.

COVID-19 Preforeclosure Sale (Short Sale)

If you don't qualify for any of the previous options, you might be eligible for a "preforeclosure sale" (short sale). This is when the borrower sells the home for less than the outstanding loan balance. The lender can't get a deficiency judgment after an FHA preforeclosure sale.

COVID-19 Deed in Lieu of Foreclosure

Or you might qualify for a "deed in lieu of foreclosure." With this option, the borrower trades the home's deed to HUD in exchange for a release from all obligations under the mortgage. Like with a preforeclosure sale, the lender can't get a deficiency judgment after a deed in lieu.

How to Figure Out If You Have an FHA-Insured Mortgage Loan

The easiest way to find out what kind of loan you have is to call your loan servicer.

You could also look for an FHA case number on your mortgage contract. Sometimes, though, loans lose their FHA-insured status. Call your servicer or HUD's National Servicing Center at 877-622-8525 if you have questions about your loan's status.

You can also check your billing statement to see if you pay a mortgage insurance premium (MIP). "MIP" is what FHA calls its mortgage insurance. If you're paying MIP, then you have an FHA-insured loan.

Talk to a HUD-Approved Housing Counselor or Foreclosure Lawyer

To learn more about loss mitigation options for FHA-backed loans, see HUD's Loss Mitigation Services for FHA Homeowners website. You can also call the FHA Resource Center at 800-CALL FHA (800-225-5342), go to the online FHA Resource Center, or email the FHA Resource Center at answers@hud.gov.

To learn about different ways to avoid a foreclosure, consider talking to a (free) HUD-approved housing counselor. A housing counselor can help you understand the options available if FHA insures your loan or another entity owns or guarantees your home loan. You can also call your servicer to learn about available relief.

Talk to a foreclosure attorney to learn about foreclosure laws and procedures in your state, including how long the process takes.

If you don't have an FHA-insured loan, most servicers (on behalf of the loan owner) offer various alternatives to help homeowners, like forbearance agreements and modifications.