

## FHA Loss Mitigation FAQ's

### 1) What loss mitigation programs are available for FHA insured mortgages?

The Department of Housing and Urban Development regulates FHA insured mortgages and dictates what programs are available and the order in which mortgagees such as James B. Nutter & Company review borrowers for those programs. Below is a list of the programs followed by a brief description. The programs are listed in the order in which James B. Nutter & Company is required to review all borrowers for to determine the most appropriate programs available:

- Forbearance (formal or informal): This is typically used for borrowers 1 to 2 months past due with an extremely short hardship that has since been resolved and can be cured with a repayment plan. Full monthly mortgage payment amount may be subject to change due to taxes and/or insurance adjustments outside of James B. Nutter & Company.
- Special Forbearance: This is typically used for borrowers between 3 to 12 months past due for borrowers who have fallen behind on their mortgage and now have the financial capacity to repay their mortgage within 12 months based on financial information provided by the borrower. The property must be owner occupied. Full monthly mortgage payment amount may be subject to change due to taxes and/or insurance adjustments outside of James B. Nutter & Company.
- Loan Modification: This is the only home retention program available for borrowers who are over 12 months past due, but can be reviewed starting at 3 months past due. The property must be owner occupied. If the borrower shows that they could make their mortgage payment again if their interest rate were to be lowered and/or their term was extended. The past due interest, escrow shortages (advances the mortgagee had to pay from the escrow account when taxes and/or insurance came due), and any attorney fees that accumulated due to foreclosure fees and costs from the loan being past due would be added to the principal balance of the loan. Borrowers would make 3 trial payments to show they could support the new, modified mortgage payment amount, and satisfy any conditions outlined on the trial agreement during that period. If the trial agreement is satisfied, the borrower's mortgage will be modified. Full monthly mortgage payment amount may be subject to change due to taxes and/or insurance adjustments outside of James B. Nutter & Company.
- Partial Claim: This is only available for borrowers between 4 to 12 months past due who have fallen behind on their mortgage but now have the financial capacity to pay their monthly mortgage payment, but cannot pay the full amount past due. The property must be owner occupied. Borrowers would make 3 trial payments to show they can support their monthly mortgage payment. Past due payments and attorney fees that accumulated due to foreclosure fees and costs from the loan being past due would be placed at the back of the loan, due at either 1) the maturity of the loan, 2) the property being sold, or 3) a refinancing of the property. Full monthly mortgage payment amount may be subject to change due to taxes and/or insurance adjustments outside of James B. Nutter & Company.

- Home Affordable Modification Plan (HAMP): Other than a formal forbearance, this is the **only** program available for loans that are current but, based on the financial information provided by the borrower, will soon be in default. The property must be owner occupied. FHA's Home Affordable Modification Plan combines a loan modification and a partial claim. Based on financial information provided by the borrower, our reviewers see if it would be possible for the borrower to afford a monthly mortgage payment at 31% of their **gross** monthly income (this is the **only** program that also looks at gross income). If the borrower is able to afford this payment without their back end ratio (all installment debts divided by gross monthly income) exceeding 55%, and without needing to have more than 30% of their unpaid principal balance at application placed on the back of the loan, which would include past due payments, escrow shortage, and principal needing to be reduced in order to not exceed a back end ratio of 55%. The loan's interest rate would be dropped to the current market right and the term extended to 30 years. Borrowers would be required to make 3 trial payments to show they could support the new, monthly mortgage payment if over 30 days past due. Borrowers current when they apply would need to make 4 trial payments, per HUD guidelines. The partial claim would be due at either 1) the maturity of the loan, 2) the property being sold, or 3) a refinancing of the property. Full monthly mortgage payment amount may be subject to change due to taxes and/or insurance adjustments outside of James B. Nutter & Company.
- Special Forbearance (unemployment provision): This is a program available for borrowers 3 to 12 months past due on their mortgage needing temporary assistance due to job loss from either a borrower or a contributing spouse. The property must be owner occupied. This plan requires partial payments of the mortgage and monthly updates on the status of a job search. If monthly updates are not provided, the plan will be closed out for non-compliance. Even if the update is "no change" an update has to be provided. Full monthly mortgage payment amount may be subject to change due to taxes and/or insurance adjustments outside of James B. Nutter & Company.
- Reduced Forbearance: This is a program available for borrowers 3 to 12 months past due on their mortgage needing temporary assistance who are employed, want to remain in their house, and are currently ineligible for any of the programs above but show they may be eligible in the coming months. The property must be owner occupied. This plan requires partial payments of the mortgage and monthly updates on the status either increased income or decreased expenses. If monthly updates are not provided, the plan will be closed out for non-compliance. Even if the update is "no change" an update has to be provided. Full monthly mortgage payment amount may be subject to change due to taxes and/or insurance adjustments outside of James B. Nutter & Company.
- Pre-Foreclosure Sale: This is a program for borrowers who had been occupying the house as their principal residence who are unable to keep their home any longer. Borrowers must show they have resided in the house within the last 18 months, are financially unable to support their mortgage payment, and the house must appraise at less than the principal balance owed on the loan (the appraisal must be ordered by James B. Nutter & Company). If all these conditions are met, a licensed realtor may market the property for 120 months to sell the property for a large percentage of the current market value. Updates must be provided monthly regarding the status, and the property must be maintained during this time. Incentives can be paid of up to \$1,000 for short sale completion.
- Deed in Lieu: This is a program for borrowers who had been occupying the house as their principal residence who are unable to keep their home any longer and have attempted to sell the property in a pre-foreclosure sale. To avoid foreclosure, borrowers may look into a deed in lieu of foreclosure to prevent the foreclosure action so long as the title is clear of all other liens outside of James B. Nutter &

Company's lien, and the property is in marketable condition as outlined by the Department of Housing and Urban Development. This action does **not** place foreclosure activity on hold, but may delay foreclosure activity depending on status. Incentives can be paid of up to \$2,000 for deed in lieu of foreclosure completion.

**2) Are FHA insured loans eligible for the HMP loans?**

Unfortunately, no. Those programs are available for loans owned by Fannie Mae and Freddie Mac, and loans known as "proprietary loans", or loans owned by banks and servicers. FHA insured loans are federally backed loans, and are not eligible for those HMP programs.

**3) If I'm current and I'm approved for FHA-Home Affordable Modification Program, what happens to my credit?**

Your credit will be reported as past due to the credit bureaus during the trial period. Upon successfully completing the trial period payments and conditions, once your loan is modified your months in the trial will be corrected with the credit bureau. This is only available if you are current when you **apply** for loss mitigation. We wish we didn't have to report to the credit bureau during the trial period, but unfortunately we do.

**4) Are modifications and "HAMP" refinances?**

Technically, no, but they are fairly similar. There's usually a rate change and term extension, but really a modification and HAMP are **amendments** to your mortgage. That's why there's a lot less paperwork and not really a "closing", per se. No new FHA case number is ordered; no lien is released. The final loan modification agreement is recorded, but it's really just adding on to your mortgage that's already recorded. Modifications are **not** refinances. The first payment is not "skipped". If when you receive your final modification paperwork there is a gap of time of a month or so between when your first payment is due (for instance, you get the agreement March 30<sup>th</sup> and the first payment is due May 1<sup>st</sup>), April's payment isn't "skipped"—it is a month added to the end of your loan. Unfortunately we wouldn't be able to forgive that month, but the extra time is given for our company to process the final paperwork and, more importantly, for the borrower to adjust their finances to take care of other financial responsibilities prior to the start of the official modification.

**5) How do I fill out the application?**

There are instructions on the application, but if you have any questions, feel free to call us directly at 800-315-7334 extension 1863 or 1864. Extension 1863 would be dialed if you wish to retain the home, and extension 1864 would be dialed if you wish to pursue a short sale or deed in lieu of foreclosure.

**6) When will the loan be reinstated?**

Typically, the timeline would go like this: for modifications, partial claims, reduced payment plans, and HAMP, there's a three month trial period (if the borrower is current when they apply for HAMP, trial period is four payments). A trial agreement is sent with the due date. All these plans are subject to a 15 day grace period following that day. If the payment isn't made, unfortunately, we have to close out the file. If a borrower calls up and states reasons the payment can't be made within the grace period, exceptions may be made. However, if our office isn't contacted, we would not be able to accept any payments following the grace period and would close out the plan. Following completion of the trial periods for those plans with said conditions, final paperwork processing would then be done. Typically this process takes 7 to 10 days.

**7) How long after sending in an application should I expect a review to be done?**

The turnaround is currently 2 to 4 weeks. Once a complete file is received, a reviewer then places the file in order not based on when first received, but, rather, on the paid through date. This procedure could change in the future, but at the present time, this is what the loss mitigation department is following and believes is the most efficient and fair. Borrowers are welcome to call in to ask the status of their review prior to 2 weeks.

**8) Why am I being penalized for applying for help just because I'm not past due?**

We're not attempting to penalize anyone for asking for help before the loan defaults. We understand that delinquent credit reporting isn't something a lot of current borrowers are used to, but the point of these programs is to keep people in their houses—not to save their credit. If all the financial information provided and the hardship provided was accurate, then the unfortunate truth of the matter is that without loss mitigation assistance, the borrower is stating that they will not be able to support the mortgage payment in the foreseeable future, and that the mortgage will go into default without help. This is also confirmed during review when it is determined, by financial information provided by the borrower, that there are more expenses than income, which we determine as "imminent default" (if not everything can be afforded, then obligations, at some time, will not be able to be met). If a borrower wishes to pursue loss mitigation, is current, and doesn't want their credit damaged, even if just short term, a refinance through our origination department might be a more desirable option, as the rates are comparable.

**9) Why can't I get a 2% rate? Why can't you forgive some of the principal?**

Because the loan is federally backed, we have certain guidelines we have to follow, and one of them is the allowable rate. As discussed earlier, programs offered through HMP or for proprietary loans owned by other servicers may have more flexibility in regard to rate and forgiving principal. All we can do for FHA's HAMP program is defer principal.

**10) Why won't you work with NACA?**

FHA insured loans are unfortunately ineligible for offers from NACA to drop rate and reduce principal to reach an affordable payment. The NACA representative may not have known the loan was FHA insured and if they did, they likely would not have made the suggestions to adjust the rate and term. What we can do, however, is take the application and contact the borrower to advise that, unfortunately, while we cannot do what was outlined at a NACA convention, we can send you our loss mitigation packet and see if you qualify for any of the programs available for FHA loans.

**11) Why are there inspectors driving past our house?**

While contractually delinquent and in a loss mitigation program, due to the owner occupancy requirement for FHA insured loans, James B Nutter & Company has to ensure the property is occupied and not in a state of disrepair that may cause an inability to satisfy the obligation of the mortgage or the loss mitigation program.

**12) Why do you have to take certified funds?**

Due to past returned checks for insufficient funds, for delinquent accounts, we require certified funds. We understand there are additional costs and charges that come with these forms of payment, but a key component in all of these loss mitigation programs isn't just making the default current again—it's showing that the payment can be maintained in the future. We can really only verify this with true and valid funds.