



United States Department of Agriculture
Rural Development
Single Family Housing

U.S. Department of Agriculture
Rural Development

Loss Mitigation Guide

Single Family Housing
Guaranteed Loan Program

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Chapter 1. Loss Mitigation Guide

Overview

Introduction Rural Development (Agency) encourages Servicers to exercise loss mitigation techniques to the fullest extent possible when servicing defaulted loans under the Single Family Housing Guaranteed Loan Program (SFHGLP).

Contents This chapter contains the following topics.

Topic	Topic Name	See Page
1	Loss Mitigation Guide Overview	1-2
2	Loss Mitigation: Process Overview	1-5
3	Loss Mitigation: Process Roles and Responsibilities	1-10

1. Loss Mitigation Guide Overview

Introduction	<p>This topic contains information on</p> <ul style="list-style-type: none">• the purpose of the Loss Mitigation Guide• the target audience for the Guide• guidelines for using the Loss Mitigation Guide• the Loss Mitigation Guide information hierarchy• navigating content in the Loss Mitigation Guide, and• an explanation of the visual graphics used in this Guide.
Change Date	<p>January 9, 2007</p>
a. Purpose of the Loss Mitigation Guide	<p>The Loss Mitigation Guide</p> <ul style="list-style-type: none">• clarifies the policies concerning loss mitigation actions• describes loss mitigation options• identifies circumstances for their use, and• discusses situations in which each alternative may be appropriate.
b. Target Audience for the Loss Mitigation Guide	<p>This Guide provides information on loss mitigation options to</p> <ul style="list-style-type: none">• Servicers that service Section 502 Guaranteed Loans, and• Agency staff that provide guidance to Servicers.
c. Guidelines for Using the Loss Mitigation Guide	<p>The Loss Mitigation Guide has a modular design. Each of the chapters is a self-contained unit, and includes all of the references and links related to that chapter. Once you find the content you are looking for, you can save it for future reference by</p> <ul style="list-style-type: none">• printing or bookmarking a chapter, or• saving the print (PDF) version of the file on your local machine.

Continued on next page

1. Loss Mitigation Guide Overview, Continued

d. The Loss Mitigation Guide Information Hierarchy

The chapters in the Information Mapped Loss Mitigation Guide have a different numbering convention from the previous chapters they replace. While the Guide was developed using the standard USDA guidelines and formatting, the numbering convention for information within a chapter is explained in the table below.

Hierarchy	Numbering Example	Description
Chapter	LMG 1	Guide LMG, Chapter 1
Section	LMG 1.A	Guide LMG, Chapter 1, Section A
Part	LMG 1.A.1	Guide LMG, Chapter 1, Section A, Part 1
Topic	LMG 1.A.1.1	Guide LMG, Chapter 1, Section A, Part 1, Topic 1
Block	LMG 1.A.1.1.a	Guide LMG, Chapter 1, Section A, Part 1, Topic 1, Block a

e. Navigating Content in the Loss Mitigation Guide

Navigating on the Content Page

When you are on a content page for a Chapter or Section, you can

- scroll down the page to read the entire Chapter/Section, or
- use the Contents list to select a specific Topic.

Once you select a Topic from the Contents list, the Topic will appear on the top of the page.

Using References to Other Content Pages and External Web Sites

The content Blocks within the Guide contain hyperlinked references to other locations within the Guide and external Web sites. Click on the hyperlink to open the relevant content in a new window. To return to the content you were previously viewing, simply click the “X” button in the top right corner of the window.

Continued on next page

1. Loss Mitigation Guide Overview, Continued

f. Explanation of the Visual Graphics Used in this Guide

There are pictorial elements used in the Guide to illustrate certain concepts and to act as a visual marker for the reader. The visual elements used, and their purpose is explained below.

Visual Graphic	Indicates ...
	<p>the position of the information within the loss mitigation process.</p> <p>Example: The image on the left indicates that the information is related to the first (1st) phase of the loss mitigation process.</p>
	<p>a note or additional information.</p>
	<p>important information to be noted.</p>
	<p>exceptions to the stated information.</p>
	<p>reference material.</p>

2. Loss Mitigation: Process Overview

Introduction This topic provides an overview of the loss mitigation process, including

- common definitions
 - the loss mitigation process diagram, and
 - the loss mitigation process stages and descriptions.
-

Change Date January 9, 2007

a. Definition: Delinquent Loans A loan is delinquent if it is 30 or more days past due.

Examples:

- A loan is considered *30 days delinquent* if the June 1st installment has not been paid as of June 30th.
- A loan is *60 days delinquent* if the May 1st installment has not been paid as of June 30th.



For purposes of this Guide, the terms delinquency and default shall be used interchangeably.



For February

A loan is considered delinquent if the February 1st installment has not been paid as of February 28th, except in a leap year, the installment would be due on the 29th.

b. Definition: Informal Loss Mitigation **Informal Loss Mitigation** represents actions taken by a Servicer on a delinquent loan that is *less than 90 days* past due.

c. Definition: Formal Loss Mitigation **Formal Loss Mitigation** consists of actions taken by a Servicer on a delinquent loan that is *more than 90 days* past due.



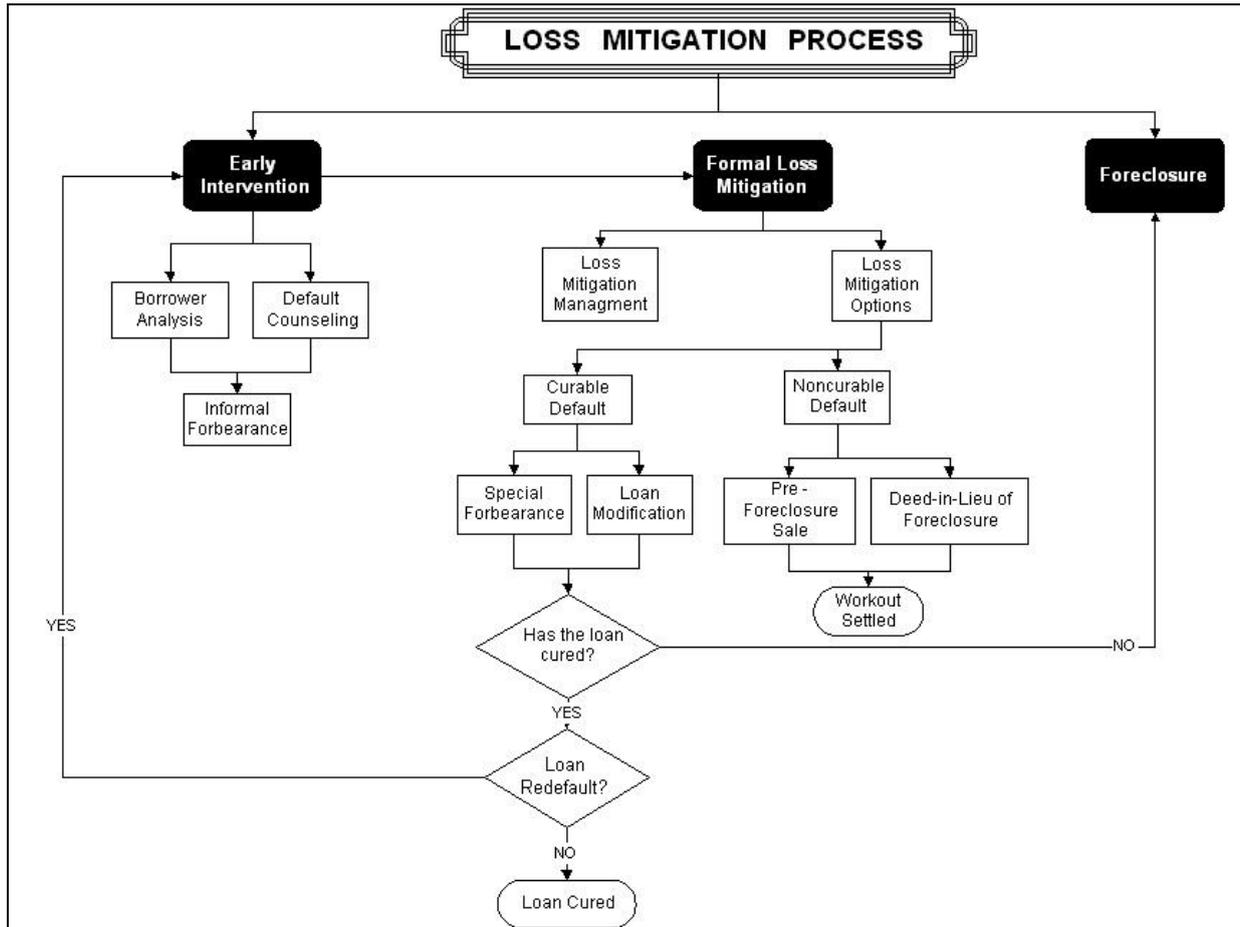
All formal loss mitigation actions require a Servicer to submit a SFHGLP loan servicing plan outlining the recommendations to the Agency for approval.

Continued on next page

2. Loss Mitigation: Process Overview, Continued

d. Loss Mitigation Process Diagram

The process flow below depicts the loss mitigation process followed when servicing loans in default.



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2. Loss Mitigation: Process Overview, Continued

e. Loss Mitigation Process

The table below outlines the actions that a Servicer should take when pursuing loss mitigation.

Stage	Task	Description	Time Period
Early Intervention	Borrower Analysis	Use payment or credit scoring tools, if available, to identify high risk borrowers.	As early as the second day of delinquency.
	Default Counseling	Inform the borrower(s) of available loss mitigation options and the availability of housing counseling.	Before the 45 th day of delinquency.
Formal Loss Mitigation	Loss Mitigation Management	<ul style="list-style-type: none"> • Report loss mitigation actions. • Reevaluate each delinquent loan until current, foreclosed or otherwise liquidated. • Maintain documentation of the evaluations in its servicing or collection systems. <ul style="list-style-type: none"> – The evaluation may be as simple as notes in the collection system that the borrower’s payments under special forbearance are made as agreed. – Reports generated by servicing systems that track repayment plans are adequate for documentation purposes. – All documentation should be retained for a period of seven years. 	Monthly.  The Monthly Default Reporting and Quarterly Status Reporting should be completed using the Electronic Data Interchange (EDI) Status of Mortgage Code values.
	Loss Mitigation Options	Evaluate each delinquent loan to determine which loss mitigation option is appropriate	Before the 90th day of delinquency.

Continued on next page

2. Loss Mitigation: Process Overview, Continued

e. Loss Mitigation Process (continued)

Stage	Task	Description	Time Period
Formal Loss Mitigation (continued)	Loan Modification ReDefaults	<p>The Servicer must extend additional efforts to a borrower whose mortgage has been modified under the loan modification workout option.</p> <p> The Servicer must ensure the borrower has received updated payment coupons prior to the Due Date of the first payment.</p>	<ul style="list-style-type: none"> • During the <i>first three months</i> after the mortgage is modified, call the borrower within five Business Days after the payment Due Date (if the payment is not remitted), to remind the borrower that the payment was due on the first day of the month. • By the <i>10th day of Delinquency</i>, call the borrower if the payment has not been received by that date. • On the <i>45th day of Delinquency</i>, send the Notice of Default to the borrower.

Continued on next page

2. Loss Mitigation: Process Overview, Continued

e. Loss Mitigation Process (continued)

Stage	Task	Description	Time Period
Foreclosure	Initiation	<p>Foreclosure can occur if the Servicer has determined that all other loss mitigation options are either not feasible or have failed, and must be the last alternative available.</p> <p>Initiation of foreclosure requires the submission of a mortgage case and appropriate foreclosure documentation to a litigation (foreclosure) attorney or trustee after taking all appropriate actions to accelerate the mortgage.</p>	<p>The 45th day of delinquency.</p> <p> Foreclosure is considered to be initiated on the date the complaint is filed. Subject to applicable state law.</p>
	Management	<p>The Agency requires the foreclosure process to be managed so as to acquire title to the property in a cost-effective, expeditious and efficient manner.</p>	<p>Monthly, and preferably more often, there must be communication with the foreclosure attorney or trustee to</p> <ul style="list-style-type: none"> • obtain updates on the case, and • provide the attorney or trustee with necessary documentation or information.

3. Loss Mitigation: Process Roles and Responsibilities

Introduction This topic provides an overview of roles and responsibilities of the Servicer and the Agency within the loss mitigation process.

Change Date January 9, 2007

a. The Servicer's Responsibility Loan Servicers are responsible for servicing SFHGLP performing and non-performing (delinquent) loans. This responsibility includes

- monthly reporting of loans in default
- loss mitigation actions, and
- proactive actions
 - managing loans in default, and
 - submitting recommended loss mitigation action (servicing plans) for approval by the Agency.

b. Servicer's Responsibility: Monthly Reporting of Default Loans Servicers are required to submit the Monthly Default Report when a borrower is 30 days delinquent. Servicers are required to resubmit the data every 30 days until the mortgage is current or liquidated.

-  • Do not report loans that have been brought current during the reporting period.
 - If a delinquent loan is brought current during the reporting period, it should be reported on the quarterly EDI report.
- Standard Status of Mortgage Codes must be used in the Monthly Default Reporting and Quarterly Status Reporting.

 For Status of Mortgage Codes, see LMG 4.7.

Continued on next page

3. Loss Mitigation: Process Roles and Responsibilities,

Continued

**c. Servicer's
Responsibility: Loss
Mitigation
Actions**

Loss mitigation actions minimize the potential credit losses that may result from a borrower's failure to pay the mortgage payments and any subsequent foreclosure action. Loss mitigation actions consist of

- analyzing the borrower's financial situation
- monitoring the condition of the property
- determining the property value to find a solution to the delinquency through the use of alternatives to foreclosure
- initiating foreclosure when there is no viable alternative to foreclosure, and
- managing and completing the foreclosure process to
 - reduce expenses and accrued interest
 - protect and preserve the value of the property, and
 - acquire title to the property within the State foreclosure timelines.

**d. The
Agency's
Role in
Managing
Default Loans**

The Agency will accept a Servicer's servicing plan based on

- the parameters outlined in the Loss Mitigation Guide
- an analysis of each borrower's financial circumstances, and
- the status of the loan.

 For additional information on servicing plans, see [7 CFR 1980.374\(d\)](#).

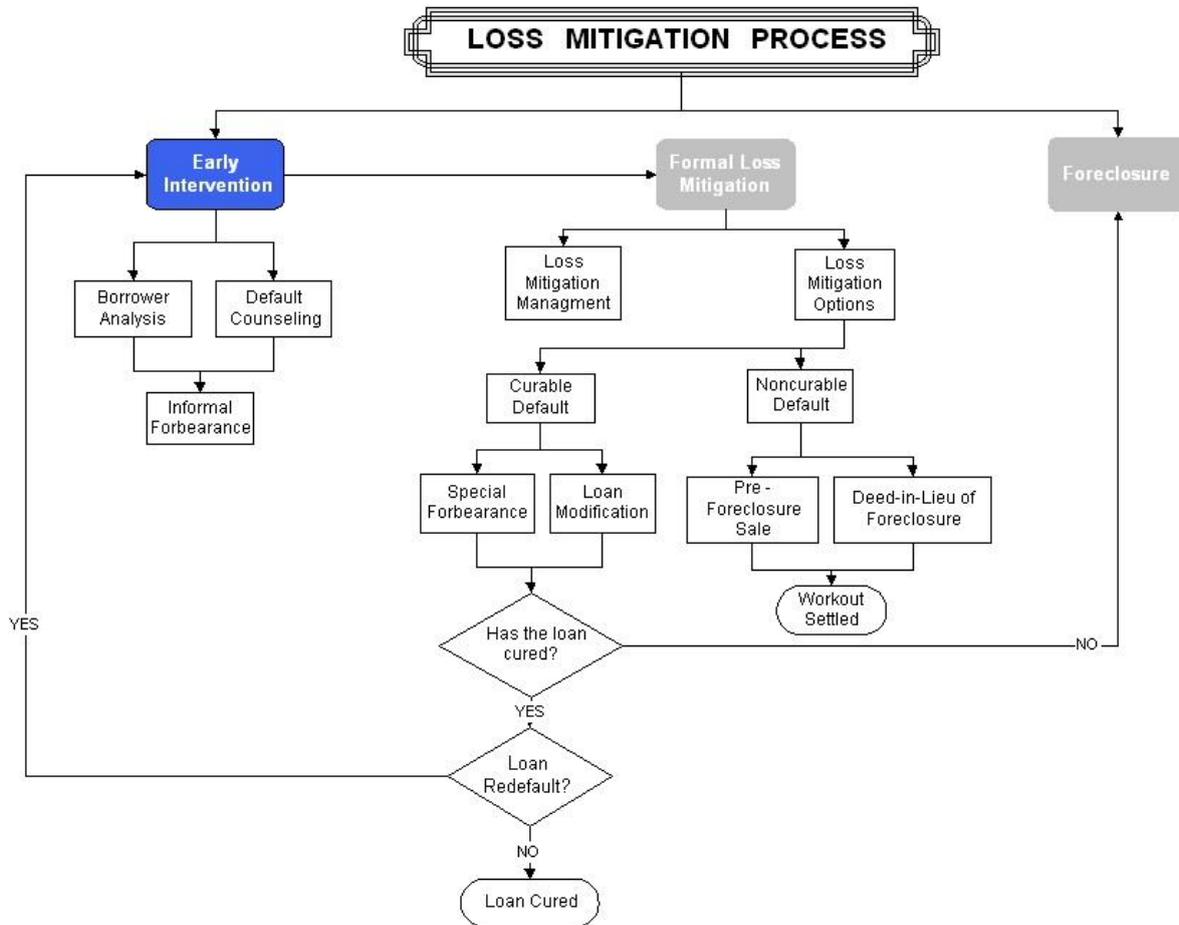
Chapter 2. Early Intervention

Overview

Introduction

Effective loss mitigation begins in the early stages of servicing defaulted loans. The Single Family Housing Guaranteed Loan Program (SFHGLP) seeks to bring a delinquent mortgage current in as short a time as possible.

This is the first stage in the loss mitigation process as illustrated below.



Contents

This chapter contains the following topics.

Topic	Topic Name	See Page
1	Early Intervention Overview	2-2
2	Borrower Analysis	2-4
3	Default Counseling	2-8



1. Early Intervention Overview

Introduction This topic contains information on

- the purpose of early intervention
 - the early intervention period
 - borrower analysis
 - types of loan defaults
 - one or two payment defaults
 - three or more payment defaults, and
 - the early intervention process.
-

Change Date January 9, 2007

a. Purpose of Early Intervention Servicing early delinquency loans is a crucial Servicer function because it

- may help borrowers who are in default retain their homes
 - can reduce or mitigate the financial losses to the Servicer and to the Agency, and
 - identifies a problem earlier in the delinquency and increases the potential for long term success of the action taken.
-

b. Early Intervention Period Servicers may begin evaluating delinquent borrowers as early as the *first day* of delinquency.

c. Borrower Analysis There are specific guidelines that will determine a borrower's eligibility for loss mitigation. The type of loss mitigation option to be offered will be determined by gathering information on

- the borrower's circumstances
 - intentions, and
 - financial condition.
-

Continued on next page



1. Early Intervention Overview, Continued

d. Types of Loan Defaults The nature of the type of default will determine how the Servicer addresses the delinquency. Delinquencies can be categorized as

- one or two payment defaults, or
- three or more payment defaults.

e. One or Two Payment Defaults One or two payment defaults can be addressed by

- voluntary reinstatement by borrowers, or
- initiating the early intervention process.

f. Three or More Payment Defaults Three or more payment defaults should be addressed by

- reporting the delinquencies to the credit bureaus
- formal loss mitigation, or
- liquidating the account.

g. Early Intervention Process The early intervention process is described in the table below.

Stage	Description
Borrower Analysis	Gather information on the borrower's <ul style="list-style-type: none"> • circumstances • intentions, and • financial condition.
Default Counseling	Provide information on <ul style="list-style-type: none"> • available resources for housing counseling, and • loss mitigation options.

2. Borrower Analysis

Introduction This topic contains information on

- the early intervention period
- obtaining information on a delinquent borrower, and
- the procedure to conduct the borrower analysis.

Change Date January 9, 2007

a. Early Intervention Period

Efforts to contact the borrower may begin as early as the first day of delinquency, but no later than the 20th day of delinquency.

 For additional information on contacting the borrower, see [7 CFR 1980.371 a, b.](#)

b. Obtaining Information on a Delinquent Borrower

Follow the steps outlined in the table below to obtain information on the delinquent borrower.

Step	Action
1	Review all SFHGLP loans that are due and unpaid up to 91 st day of delinquency.
2	Try to establish satisfactory arrangements to bring the loan current.
3	If unable to bring the loan current, and before taking or recommending further servicing action, inspect the mortgaged premises to determine <ul style="list-style-type: none"> • its physical condition, and • occupancy status.
4	Determine if the property has been abandoned and if the security has been compromised. <ul style="list-style-type: none"> • If <i>yes</i>, initiate foreclosure. • If <i>no</i>, go to Step 5. <p> This determination must be made before the 60th day of delinquency.</p>

Continued on next page

2. Borrower Analysis, Continued

b. Obtaining Information on a Delinquent Borrower (continued)

Step	Action
5	<p>Contact the borrower by certified mail (or similar method) to set up an interview to discuss the delinquent account. The interview may be conducted</p> <ul style="list-style-type: none"> • face to face, or • by telephone. <p> • Contact must be established before the loan becomes 60 days delinquent.</p> <ul style="list-style-type: none"> • If contact is not established by the 90th day of delinquency, document all efforts to reach the borrower.
6	<p>At the interview, obtain</p> <ul style="list-style-type: none"> • detailed financial information, and • information on the borrower's willingness to cure the default. <p> Information may be obtained on a form similar to HUD-92068 F, <i>Request for Financial Information</i>.</p>
7	<p>Obtain additional financial information via</p> <ul style="list-style-type: none"> • an independent credit report • income verification, and • profit and loss statement (if the borrower is self-employed).

Continued on next page

2. Borrower Analysis, Continued

c. Procedure to Conduct the Borrower Analysis

Follow the steps outlined in the table below to conduct the borrower analysis.

Step	Action
1	Review the financial information on the borrower.  For information on obtaining financial information on the borrower, see LMG 2.2.b.
2	Determine the borrower's monthly income and expenses. Monthly Income Estimate the borrower's anticipated monthly net income for the period, making necessary adjustments for income fluctuations. Monthly Expenses <ul style="list-style-type: none"> • Estimate the borrower's normal monthly living expenses such as <ul style="list-style-type: none"> – food – utilities – debt service on the mortgage, and – other scheduled obligations. • Make necessary adjustments to reflect increased or decreased expenses for <ul style="list-style-type: none"> – each month of the proposed special forbearance agreement, or – a minimum of three months in the case of all other options other than special forbearance.
3	Analyze the borrower's current and future ability to meet the mortgage obligation by <ul style="list-style-type: none"> • subtracting expenses from income to determine the amount of surplus income available each month, and • dividing surplus income by total monthly expenses to determine both the surplus income percentage and surplus dollar amount.

Continued on next page

2. Borrower Analysis, Continued

c. Procedure to Conduct the Borrower Analysis (continued)

Step	Action
4	<p data-bbox="547 546 1334 613">Does the borrower need any kind of credit, legal, or employment assistance to resolve the financial problem?</p> <ul data-bbox="547 656 1318 759" style="list-style-type: none"> <li data-bbox="547 656 1318 723">• If <i>yes</i>, proceed with the Default Counseling procedure outlined in LMG 2.3. <li data-bbox="547 723 1318 759">• If <i>no</i>, go to Step 5.
5	<p data-bbox="547 766 1350 833">Offer the borrower an informal forbearance plan - a verbal repayment agreement lasting for three months or less.</p> <p data-bbox="547 875 1302 978"> An informal forbearance plan is the best means to ensure that a 30 or 60 day delinquency does not escalate beyond the borrower's ability to cure.</p>
6	<p data-bbox="547 985 1345 1052">If the borrower is not eligible for any loss mitigation option based on information secured from the borrower, then</p> <ul data-bbox="547 1095 1377 1274" style="list-style-type: none"> <li data-bbox="547 1095 1074 1131">• advise the borrower of the reason(s) <li data-bbox="547 1131 1334 1198">• allow the borrower to submit additional information that might have an impact upon the Servicer's evaluation, and <li data-bbox="547 1198 1377 1274">• retain the financial analysis and supporting documentation and make it available for compliance reviews. <p data-bbox="547 1317 1313 1375"> If the borrower is not eligible for any loss mitigation option, continue with the servicing of the loan.</p>

3. Default Counseling

Introduction This topic contains information on

- the default counseling procedure
- the counseling procedure for temporary financial problems, and
- the counseling procedure for permanent financial problems.

Change Date January 9, 2007

a. Default Counseling Procedure

Follow the steps outlined below to provide a delinquent borrower with early counseling.

Step	Action
1	<p>Provide the borrower with a copy of the HUD publication PA 426-H rev May 2001, <i>How to Avoid Foreclosure</i>, before the completion of 60 days of delinquency.</p> <p> If the borrower has filed a bankruptcy petition and legal counsel advises that providing a copy of the pamphlet would be a violation of the bankruptcy stay</p> <ul style="list-style-type: none"> • do not provide the pamphlet to the borrower, and • keep documentation of this fact in the servicing file.
2	<p>Review the results of the borrower analysis.</p> <p> For the borrower analysis procedure, see LMG 2.2.c.</p>
3	<p>Is the financial problem temporary or permanent?</p> <ul style="list-style-type: none"> • For a <i>temporary financial problem</i>, see LMG 2.3.b. • For a <i>permanent financial problem</i>, see LMG 2.3.c.

Continued on next page



3. Default Counseling, Continued

b. Counseling Procedure for Temporary Financial Problems

Follow the steps outlined below to provide counseling to a delinquent borrower with temporary financial problems.

Step	Action
1	Follow the steps outlined in the Default Counseling Procedure, LMG 2.3.a.
2	Does the borrower need any kind of credit, legal, or employment assistance to resolve the temporary financial problem? <ul style="list-style-type: none"> • If <i>yes</i>, go to Step 3. • If <i>no</i>, go to Step 4.
3	Refer the borrower to <ul style="list-style-type: none"> • housing counseling at 1-800-569-4287, or • HUD’s approved housing counseling website.  <ul style="list-style-type: none"> • A borrower who receives early counseling is much more likely to bring the loan current. • Recommend counseling to borrowers and establish working relationships with counseling agencies.
4	Arrange payment terms that the borrower can realistically keep until the delinquency can be cured.
5	If an informal forbearance plan will not be sufficient to resolve the delinquency, evaluate whether one of the more formal loss mitigation strategies should occur.  For formal loss mitigation strategies, see LMG 3.1.

Continued on next page

3. Default Counseling, Continued

c. Counseling Procedure for Permanent Financial Problems

Follow the steps outlined below to provide counseling to a delinquent borrower with permanent financial problems.

Step	Action
1	Follow the steps outlined in the Default Counseling Procedure, LMG 2.3.a.
2	<p>If the borrower's ability to support the mortgage debt has been permanently reduced through death, divorce, or permanent disability; consider</p> <ul style="list-style-type: none"> • a loan modification, which may result in a reduction of the mortgage payment, or • a pre-foreclosure sale, which allows a transition to more affordable housing.
3	Arrange payment terms that the borrower can meet until the delinquency can be cured.
4	<p>If the borrower does not have the ability to cure the delinquent loan, but has sufficient equity to sell the property</p> <ul style="list-style-type: none"> • assist the borrower in selling the property, and • arrange repayment of the arrearage from the sale proceeds. <p> Assistance may include a written agreement providing help with the payments pending the closing of the property sale, such as</p> <ul style="list-style-type: none"> – a short-term reduction of payments, or – suspension of payments. <ul style="list-style-type: none"> • The delinquency will be cured at the closing of the sale.

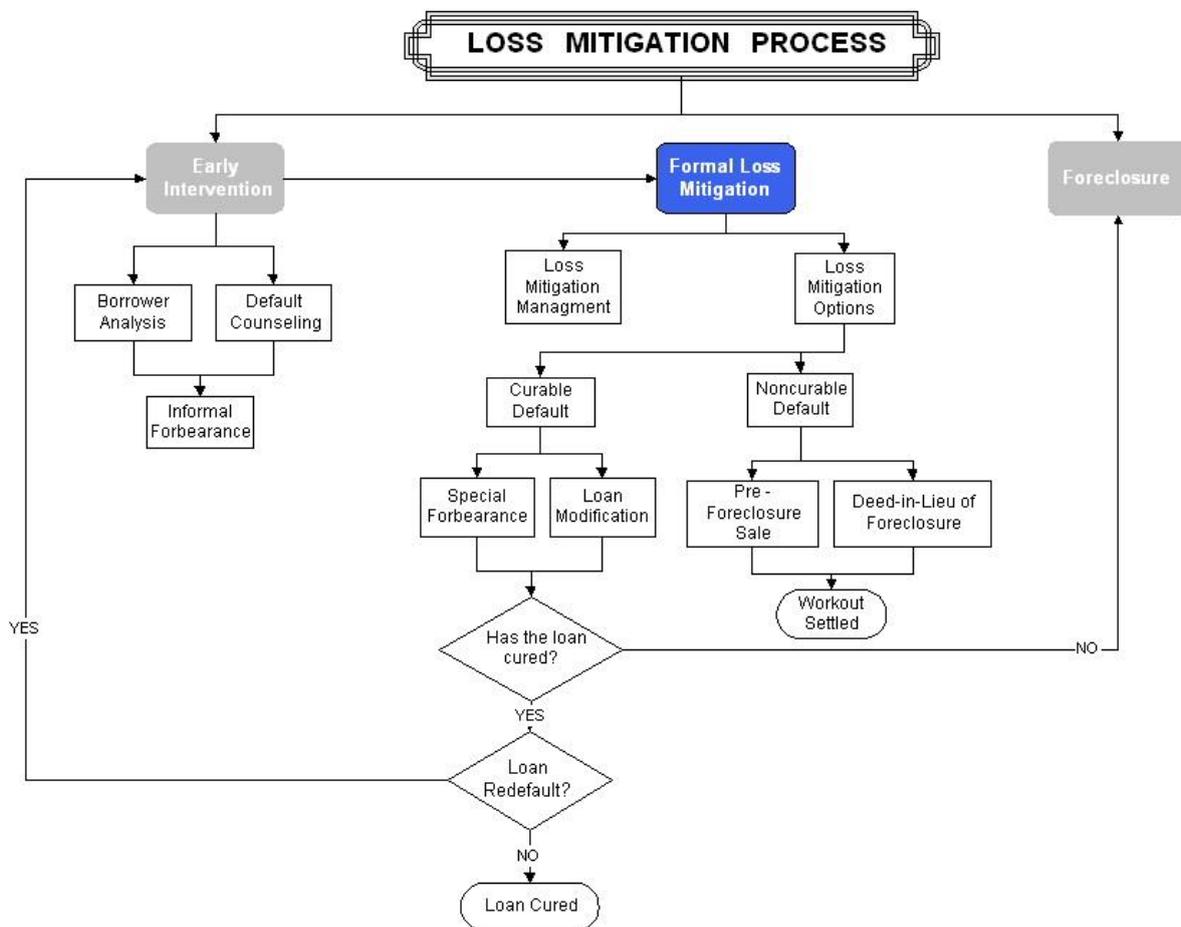
Chapter 3. Section A. Formal Loss Mitigation Overview

Overview

Introduction

Servicers have the authority and the responsibility to use loss mitigation actions to assist borrowers in default to retain their homes, and thus reduce losses to Agency and the Servicer.

This is the second stage in the loss mitigation process as illustrated below.



Contents

This section contains the following topics.

Topic	Topic Name	See Page
1	Loss Mitigation Management	3-A-2
2	Loss Mitigation Options	3-A-4

1. Loss Mitigation Management

Introduction This topic contains guidelines to be considered when considering formal loss mitigation options, namely

- the loss mitigation initiation timeframe
 - eligibility criteria
 - Servicer requirements, and
 - documentation requirements.
-

Change Date January 9, 2007

a. Loss Mitigation Initiation Timeframe Formal loss mitigation options are to be considered when a borrower is delinquent by a period of 90 days or more.

The Servicer must submit a servicing plan to the Agency using the Single Family Housing Guaranteed Loan Program (SFHGLP) Servicing Plan Form.



For additional information on

- servicing plans, see [7 CFR 1980.374 \(d\)](#).
 - the SFHGLP Servicing Plan Form, see LMG 4.3.c.
-

b. Loss Mitigation Eligibility Criteria The following criteria should hold true for a loan to be considered for loss mitigation actions.

Borrower

- Borrower should demonstrate the willingness to remain in the home and support the debt going forward.
- Must not have a pending bankruptcy petition.

Property

- Must be the borrower's principal residence.
- Should not be a vacant or abandoned property.
- Must not have been purchased as a rental investment or used as a rental for more than 12 months.



If the following hold true, loss mitigation options may still be considered.

- The borrower has had a bankruptcy discharged or dismissed.
 - The property has been recently vacated due to special circumstances, such as a job transfer or death.
-

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1. Loss Mitigation Management, Continued

c. Loss Mitigation Servicer Requirements

A Servicer must use a loss mitigation option or initiate foreclosure no later than the 180th day of delinquency.

Any of the following must occur within the 180 day period:

- the loan is brought current or paid off
 - the borrower executes a special forbearance agreement
 - the loan is modified
 - the borrower executes a pre-foreclosure sale agreement
 - the borrower executes a deed-in-lieu of foreclosure, or
 - the Servicer initiates the first legal action to begin foreclosure.
-

d. Loss Mitigation Documentation Requirements

Servicing notes and collection history systems must maintain evidence of

- compliance with loss mitigation guidelines
 - compliance with counseling
 - any other actions that do not result in a claim, and
 - all communications with any Agency office.
-

2. Loss Mitigation Options

Introduction The type of loss mitigation option offered to the borrower depends on the borrower's financial situation, and his/her ability to cure the default. This topic contains information on

- types of defaults
- the available loss mitigation options
- how to select the appropriate loss mitigation option, and
- combining loss mitigation options.

Change Date January 9, 2007

a. Types of Defaults There are two main kinds of default loans as listed below.

Curable

Loans that are in default due to a temporary reduction in the borrower's ability to pay the mortgage.

Example: Job layoffs, illness, or temporary disability.

Non-Curable

Loans that are in default due to a permanent reduction in the borrower's ability to pay the mortgage.

Example: Death, divorce, or permanent disability.

b. Available Loss Mitigation Options Loss mitigation options are differentiated by the borrower's ability to cure the default. The types of options available to a Servicer are listed in the table below.

Type of Default	Available Loan Mitigation Option
Curable	<ul style="list-style-type: none"> • Special Forbearance • Loan Modification
Non-curable	<ul style="list-style-type: none"> • Pre-Foreclosure Sale • Deed-In-Lieu of Foreclosure

Continued on next page

2. Loss Mitigation Options, Continued

c. Selecting the Appropriate Loan Mitigation Option

The table below describes how to match a loss mitigation option to a borrower's situation.

If the loan is ...	And ...	Then use a ...
curable	<ul style="list-style-type: none"> • the borrower is committed to remaining in the home, and • there are attorney fees and loan modification costs which cannot be capitalized 	Special Forbearance Plan.
curable	the reduction in interest rates yields a significant reduction in the monthly payment	Loan Modification Plan.
non-curable	the borrower has no realistic opportunity to <ul style="list-style-type: none"> • replace the lost income, or • reduce expenses sufficiently to meet the loan obligation through other options 	Pre-Foreclosure Sale Plan.
non-curable	all of the other options have been exercised	Deed-In-Lieu of Foreclosure Plan.



Document the reasons for selecting any of the loss mitigation options offered to the borrower.

Continued on next page

2. Loss Mitigation Options, Continued

d. Combining Options

Loss mitigation options may be used alone or in combination to resolve an existing default.

The table below describes how these options may be combined.

The option ...	May be combined with a ...	When ...
Special forbearance	loan modification	<ul style="list-style-type: none"> the borrower needs time to resolve the default, but will eventually be able to support the debt at the modified rate but not at the higher original rate, or there is any doubt about a borrower's long term income stability. <ul style="list-style-type: none">  A modification may be included at the final step in a repayment plan or special forbearance. The combination is sequential, not simultaneous.
Pre-foreclosure sale	deed-in-lieu provision	the property does not sell within the time required.



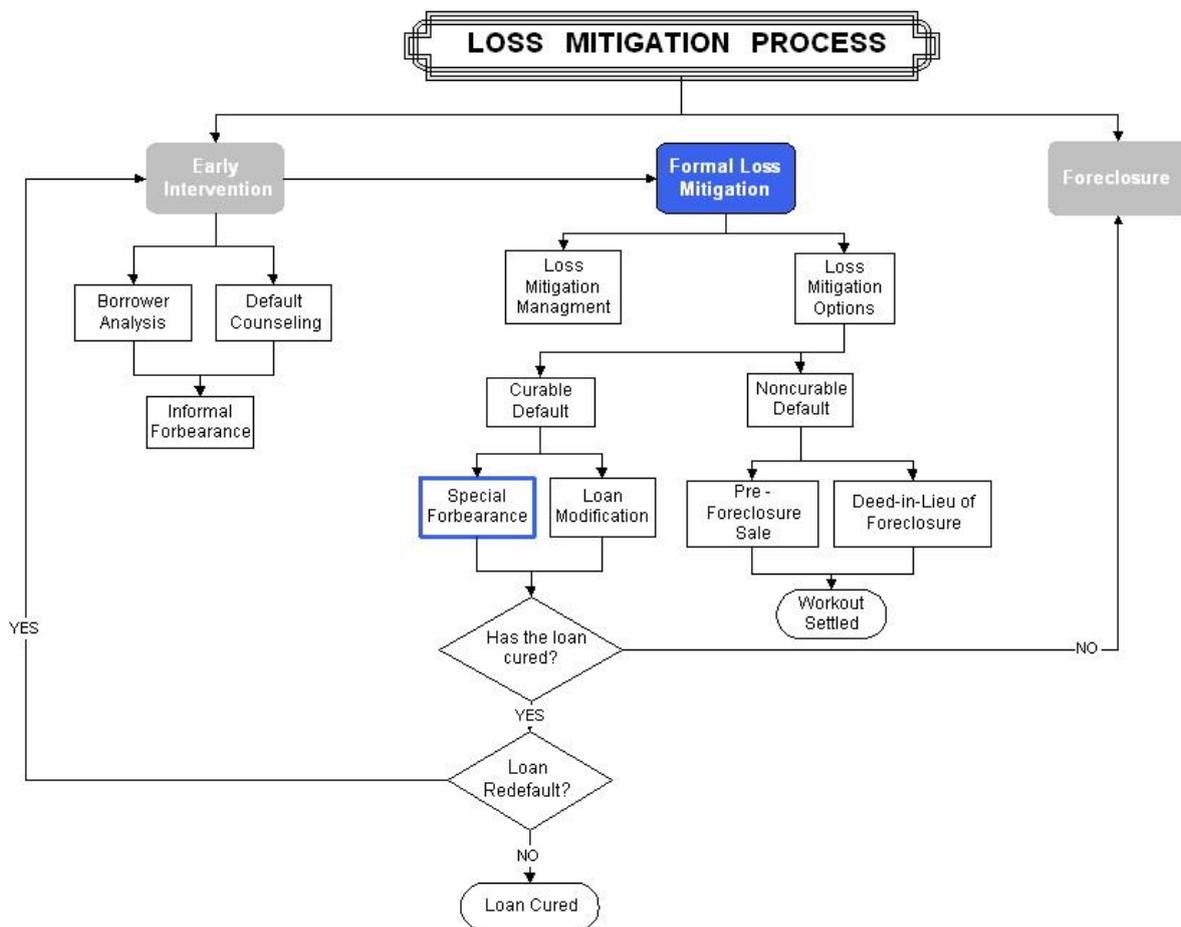
To reduce the risk of a workout failure, it is recommended that the borrower demonstrate the ability to support the debt by making a minimum of three full monthly payments based on the proposed new modified payment prior to executing a loan modification.

Chapter 3. Section B. Curable Defaults

Part 1. Special Forbearance

Overview

Introduction Special forbearance is one of the options available under curable defaults as illustrated in the process below.



Contents This part contains the following topics.

Topic	Topic Name	See Page
1	Special Forbearance Overview	3-B-1-2
2	Special Forbearance Procedure	3-B-1-6

1. Special Forbearance Overview

Introduction This topic describes the guidelines specific to special forbearance plans, namely

- the definition of special forbearance
 - the period of time for consideration of special forbearance plans
 - the duration of a special forbearance plan
 - available provisions in a special forbearance plan
 - the loan eligibility criteria
 - the borrower requirements for special forbearance
 - the property requirements for special forbearance, and
 - the documentation requirements for special forbearance plans.
-

Change Date January 9, 2007

a. Definition: Special Forbearance A **special forbearance** plan is structured so that it leads to a current loan, either by

- gradually increasing monthly payments in an amount sufficient to repay the arrearage over time, or
- through resumption of normal payments for a period (generally three or more months) followed by a loan modification.

 The maximum arrearage under a special forbearance plan must never exceed the equivalent of 12 months of principal, interest, taxes and insurance (PITI).

b. Period of Time for Consideration of Special Forbearance Plans A special forbearance plan may be offered for a loan that is delinquent for *at least 90 days*.

c. Duration of a Special Forbearance Plan There is no maximum length for a special forbearance agreement and the Servicer may allow as much time as is reasonable based on the borrower's repayment ability.

Continued on next page

1. Special Forbearance Overview, Continued

d. Available Provisions in a Special Forbearance Plan

The provisions possible in a special forbearance agreement include

- a repayment term of four or more months
 - suspending or reducing payments for one or more months to allow the borrower to recover from the cause of default, or
 - an agreement to allow the borrower to resume making full monthly payments while delaying repayment of the arrearage.
-

e. Loan Eligibility Criteria

The following guidelines apply to all special forbearance plans.

- The loan must be a minimum of three payments but not more than 12 payments delinquent, and
- the loan is not in foreclosure when a special forbearance agreement is executed.

 The following exceptions are applicable to all special forbearance plans.

- A loan that had previously been referred to foreclosure may be removed from foreclosure status after executing a special forbearance.
 - The Servicer suspends the foreclosure, in writing, on advice of its legal counsel, subject to the borrower's performance under the terms of the special forbearance agreement.
 - A Servicer's evaluation of the borrower's capacity and special circumstances (such as, presidential declared natural disaster) may indicate that a special forbearance is appropriate prior to the three payments delinquency.
-

f. Borrower Requirements for Special Forbearance

Special forbearance may be offered to a borrower who

- is the owner-occupant of the property securing the SFHGLP loan
 - has recently experienced a verified loss of income or an increase in living expenses, but who has or will have sufficient monthly income to correct the delinquency within the duration of the special forbearance plan, and
 - is committed to occupying the property as a primary residence during the term of the special forbearance agreement.
-

Continued on next page

1. Special Forbearance Overview, Continued

g. Property Requirements for Special Forbearance

In order to qualify for a special forbearance plan, the property should have no physical conditions that adversely impact either the borrower's continued use or ability to support the debt.



- The mortgaged premises must be inspected to determine the physical condition and occupancy status before further servicing action is taken or recommended.
- The borrower's ability to meet obvious property maintenance expenses must be considered.
- If the property is in extremely poor physical condition, a special forbearance plan that allows a reduction or suspension of payments with a requirement to repair the property will be required.

Continued on next page

1. Special Forbearance Overview, Continued

h. Documentation Requirements for Special Forbearance Plans

Special forbearance for loans less than 90 days delinquent

A written agreement between the borrower and Servicer is required that

- provides the borrower with relief not available under an informal forbearance plan
- brings the loan current, unless it is combined with a mortgage modification
- does not allow the total arrearage amount to exceed the equivalent of 12 PITI (Principal/Interest/Taxes/Insurance) payments
- does not allow late fees to be charged while the borrower is performing under the terms of a special forbearance plan, and
- allows reasonable foreclosure costs and late fees accrued before the special forbearance agreement is executed to be included as part of the repayment schedule.

Special forbearance greater than 90 days delinquent *Employed Borrower*

The documents required from an employed borrower are

- SFHGLP Servicing Plan
- letter from borrower outlining failure to pay/hardship
- current pay-stub
- credit report, and
- detailed budget.

Self employed Borrower

The documents required from a self employed borrower are

- year-to-date profit and loss statement
- previous year's profit and loss statement, and
- previous year's signed tax return.



- Foreclosure costs and late fees are collected only after payment of all principal, interest, and escrow advances.
- If the special forbearance plan results in a modification, foreclosure costs and fees are collected only in accordance with the requirements applicable to that option.
- The supporting documents should be retained by the Servicer but are not required to be submitted with the Servicing Plan for approval.



For additional information on documentation, see LMG 4.5.



2. Special Forbearance Procedure

Introduction This topic contains information on

- the special forbearance option procedure, and
- special forbearance guidelines for unemployment.

Change Date January 9, 2007

a. Special Forbearance Option Procedure

Follow the steps listed below when offering the borrower a special forbearance plan.

Step	Action
1	Review the borrower's financial information.
2	<p>Does the borrower have the capacity to resume full monthly payments and bring the loan current under the terms of a forbearance plan?</p> <ul style="list-style-type: none"> • If <i>no</i>, go to Step 3. • If <i>yes</i>, go to Step 4. <p> This analysis is done by projecting the borrower's surplus monthly income for the duration of the special forbearance period.</p>
<i>Inability to Cure the Default</i>	
3	<p>If the borrower either does not, or will not, have the ability to resume full monthly payments in the foreseeable future, special forbearance should not be used.</p> <p>Consider other loss mitigation options.</p>

Continued on next page

2. Special Forbearance Procedure, Continued

a. Special Forbearance Option Procedure (continued)

Step	Action
<i>Ability to Cure the Default</i>	
4	Offer the borrower repayment terms consistent with his/her ability to pay.
5	<p>Execute a written agreement that clearly defines</p> <ul style="list-style-type: none"> • the term • frequency of payments, and • amounts due under the forbearance plan. <p> The agreement must acknowledge previously missed mortgage payments and state that failure to comply with its terms can result in foreclosure.</p>
6	<p>Review the status of the plan each month and take appropriate action if the borrower is not complying with the terms of the plan.</p> <p> A plan may be renegotiated if the borrower’s financial circumstances change; however, under a renegotiated plan, the loan should not be more than 12 months delinquent.</p>

Continued on next page

2. Special Forbearance Procedure, Continued

b. Special Forbearance Guidelines for Unemployment

SFHGLP is now extending additional latitude to Servicers and holders to mitigate losses if

- the reason for default is unemployment, and
- the borrower does not have any immediate opportunities for re-employment.

Follow the steps outlined below to implement a special forbearance plan in this situation.

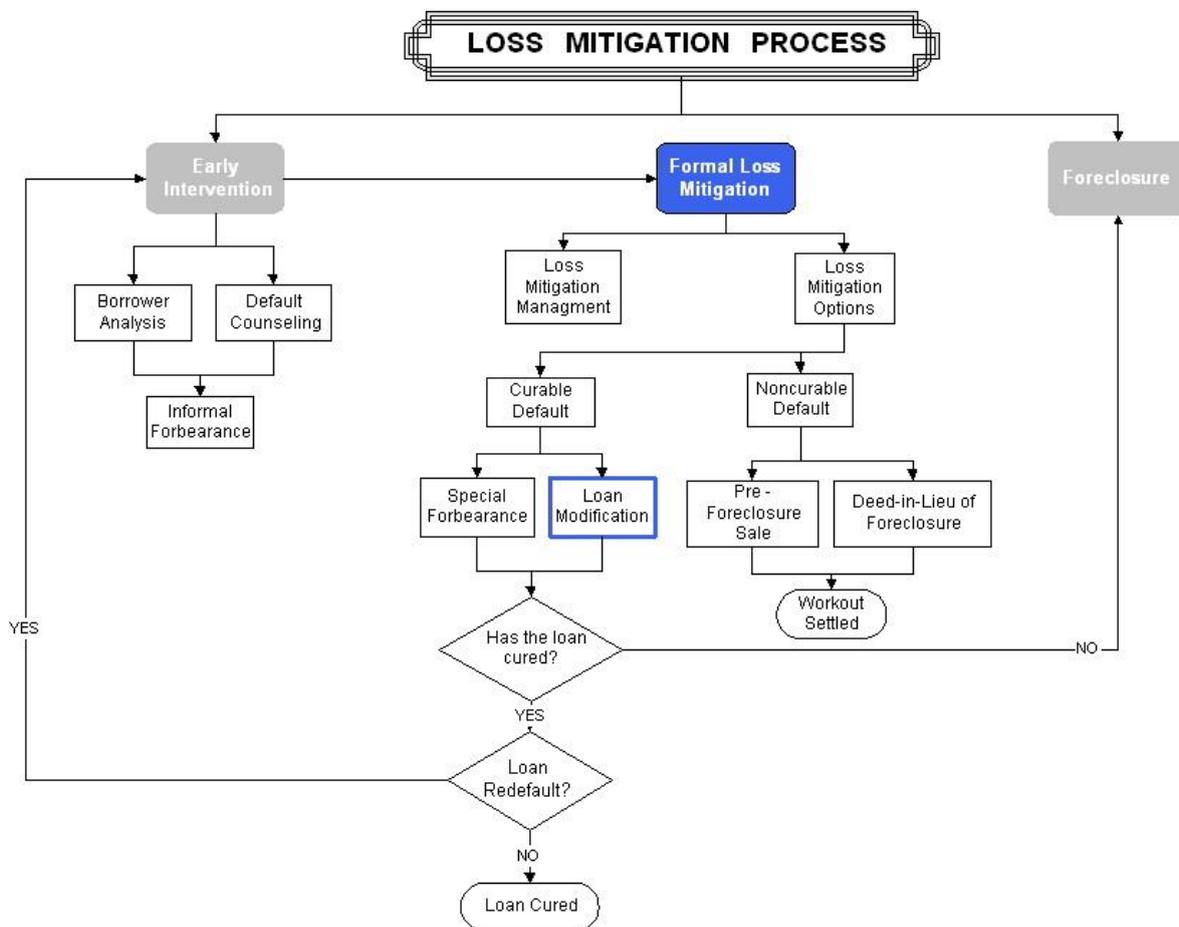
Step	Action
1	<p>Confirm that the borrower demonstrates a good payment pattern and stable employment.</p> <p> The borrower should not have a firm commitment of reemployment at the time of analysis.</p>
2	<p>Offer the borrower a partial payment option while on the forbearance agreement.</p> <p> The amount will be contingent upon the borrower's financial situation.</p>
3	<p>Ask that the borrower pursue employment during the term of the forbearance agreement.</p> <p> The borrower must contact the Servicer or holder if their employment status changes.</p>
4	<p>Verify the borrower's employment status monthly and restructure the forbearance agreement if the borrower's employment status changes.</p>

Chapter 3. Section B. Curable Defaults

Part 2. Loan Modification

Overview

Introduction Loan Modification is another option available under curable defaults as illustrated in the process below.



Contents This part contains the following topics.

Topic	Topic Name	See Page
1	Loan Modification Overview	3-B-2-2
2	Loan Modification Procedure	3-B-2-5

1. Loan Modification Overview

Introduction This topic contains guidelines for implementing a loan modification, namely

- the loan modification definition
 - specifications for a loan modification
 - the duration of a loan modification plan
 - available provisions in a loan modification plan
 - loan requirements for a loan modification
 - borrower requirements for a loan modification
 - property requirements for a loan modification, and
 - documentation requirements for a loan modification.
-

Change Date January 9, 2007

a. Definition: Loan Modification A loan modification is a permanent change in one or more of the terms of a loan that results in a payment the borrower can afford and allows the loan to be brought current.

- 💡 • A loan modification is useful when the arrearage can be capitalized into the existing loan balance and/or the interest rate is reduced so that the borrower can better afford the resulting monthly payment.
 - In some cases, a loan modification might result in higher mortgage payments as a result of capitalizing the arrearage. This option may be feasible if the borrower's financial situation will accommodate a higher payment.
 - Approval of a loan modification does not eliminate Rural Development's recourse to the servicer.
-

Continued on next page

1. Loan Modification Overview, Continued

b. Duration of a Loan Modification Plan

The term of the loan modification should *not exceed 360 months*.



The terms of the SFHGLP Loan Note Guarantee (LNG) do not change. The LNG is in effect only for 30 years from the date of the original loan. Any loss on the modified loan is limited to the lesser of

- 90 percent of the original loan amount, or
 - the sum of the first 35 percent of the loss and 85 percent of the balance of the loss.
-

c. Available Provisions in a Loan Modification Plan

Loan modifications may include

- a reduction in the interest rate, even below the market rate if necessary
 - all or a portion of the PITI arrearage (principal, interest, and escrow items) that are capitalized to the mortgage balance, and/or
 - reamortization of the balance due.
- Discount fees associated with rate reductions are not reimbursable.
- Foreclosure costs, late fees and other administrative expenses may not be capitalized.
 - The modified principal balance may exceed
 - the loan's original principal balance, or
 - 100 percent loan-to-value.
-

d. Loan Requirements for a Loan Modification

A loan modification can be offered only if

- three or more full monthly payments are due and unpaid, and
 - the loan is not in foreclosure at the time the modification is executed.
- A loan removed from foreclosure status may be modified.
- The Servicer may modify a loan that is not delinquent but is in imminent danger of default - that is, it will soon become delinquent due to known circumstances.
-

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1. Loan Modification Overview, Continued

e. Borrower Requirements for a Loan Modification

A modification may be appropriate for a borrower who

- is an owner-occupant of the property
- is committed to occupying the property as a primary residence
- has experienced a permanent or long-term reduction in income or an increase in expenses, and
- has recovered from the cause of the default and now has stable income, which is sufficient to support the monthly payments under the modified rate.



A modification should not be used to bring a loan current before a sale or assumption.

f. Property Requirements for a Loan Modification

The Servicer must verify through an inspection that the property has no physical conditions that adversely impact the borrower's continued use or ability to support the debt.



- The modification option does not have a loan-to-value restriction, and an appraisal or broker's price opinion is not required.
 - An analysis of the borrower's surplus income should consider anticipated property maintenance expenses.
 - Costs to complete needed repairs may not be capitalized as part of a modification agreement, and the borrower may not receive any cash as a result of the modification.
-

g. Documentation Requirements for a Loan Modification

The loan modification agreement should contain the following key data elements

- borrower and co-borrower name(s) and ID number(s)
- effective reamortization date
- unpaid principal reamortized
- eligible interest and costs capitalized
- sum of reamortized principal and capitalized interest and costs
- interest rate, and
- maturity date.



For additional information on documentation, see LMG 4.5.

2. Loan Modification Procedure

Introduction This topic contains information on

- the loan modification procedure
- loan modification failure, and
- the agency action required for a loan modification.

Change Date January 9, 2007

a. Loan Modification Procedure

Follow the steps listed below when offering the borrower a loan modification plan.

Step	Action
1	Review the borrower's financial information.
2	<p>Does the borrower have the ability and willingness to support a minimum of three months payments on an ongoing basis?</p> <ul style="list-style-type: none"> • If <i>yes</i>, go to Step 3. • If <i>no</i>, direct the borrower into a disposition workout alternative such as Pre-Foreclosure Sale or Deed-in-Lieu of Foreclosure. <p> If the borrower does not qualify for a retention workout alternative, in some extreme involuntary inability to pay situations, a nonpayment forbearance agreement can be authorized for a predetermined period of time to allow the borrower time to reestablish themselves.</p>

Continued on next page

2. Loan Modification Procedure, Continued

a. Loan Modification Procedure (continued)

Step	Action
3	<p>Has the loan been modified or brought current within the previous two years?</p> <ul style="list-style-type: none"> • If yes, before granting the modification <ul style="list-style-type: none"> – prepare a written justification – obtain Agency prior approval, and – retain a copy of the approval along with supporting documents in the servicing file • If <i>no</i>, go to Step 4. <p> • Re-default risk is presumed to increase following a subsequent modification.</p> <ul style="list-style-type: none"> • A subsequent modification should be an unusual occurrence, and the cause of the second default should not be related to the original reason for default.
4	Prepare a loan modification agreement.
5	<p>Verify that the modification documentation preserves the first lien status of the SFHGLP guaranteed loan.</p> <p> It may be necessary to record the modification agreement in order to maintain the first lien status.</p>
6	Verify if any disclosure or notice requirements are necessary under state or federal law.
7	<p>Collect legal and administrative fees (resulting from the canceled foreclosure action), from the borrower either through</p> <ul style="list-style-type: none"> • a lump sum payment, or • a repayment plan separate from, and subordinate to, the modification agreement.
8	Send a copy of the executed loan modification to the appropriate Agency staff within 30 days of execution.
9	<p>Report the loan modification actions using the appropriate EDI status code</p> <ul style="list-style-type: none"> • in the month they occur, or • if after the monthly cutoff date, in the next reporting cycle.

Continued on next page

2. Loan Modification Procedure, Continued

b. Loan Modification Failure

If a loan becomes delinquent following modification, treat it as a new default and service it accordingly.



The Servicer maintains the first lien status of the loan subsequent to modification. In case of a claim the following rules apply.

- SFHGLP does not guarantee any amount that is not in the first lien position.
 - The Agency reserves the right to request documentation (legal or otherwise) establishing the loan's first lien status.
-

c. Agency Action for a Loan Modification

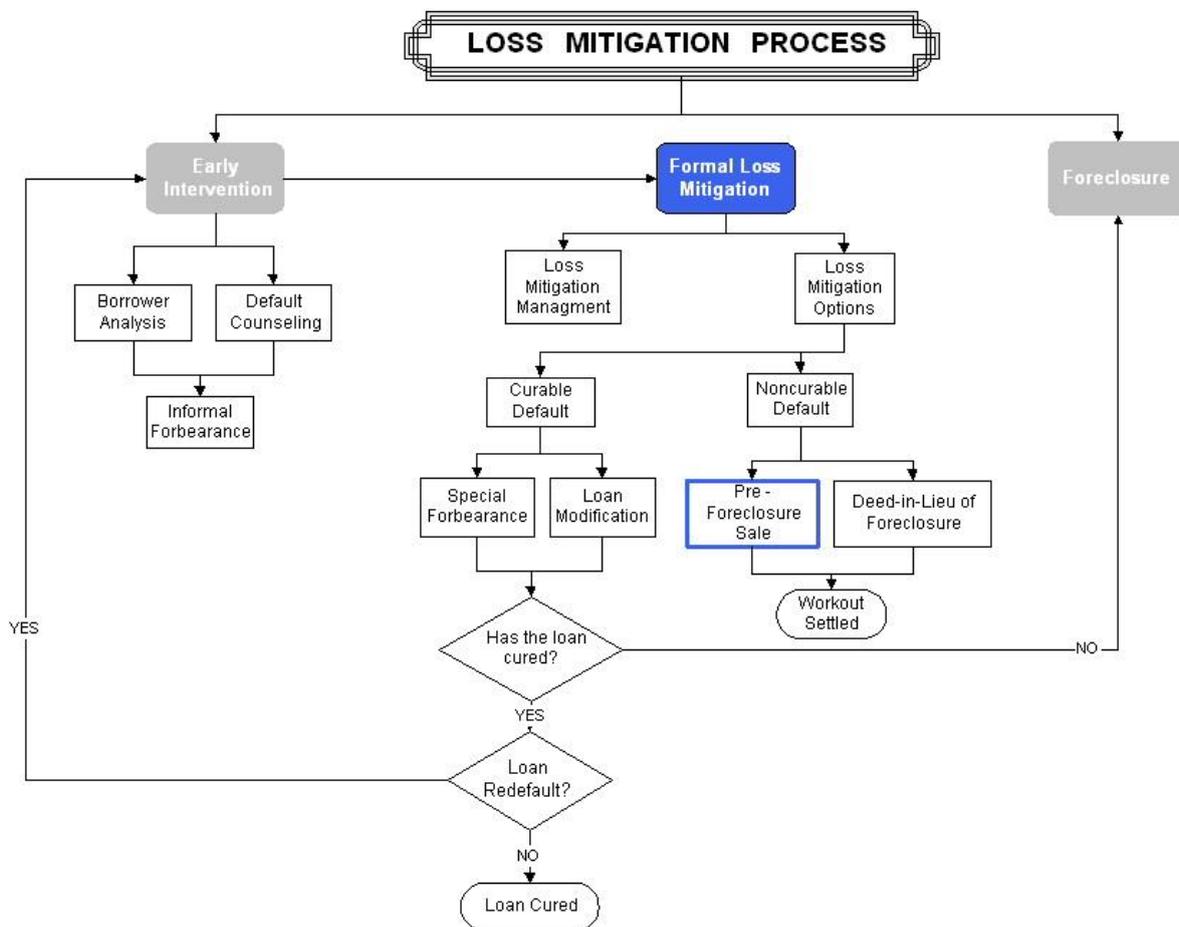
The Agency staff must process the reamortization transaction by means of the NITC, USDA Teleview, GUARANTEED System Loan Servicing Menu.

Chapter 3. Section C. Noncurable Defaults

Part 1. Pre-Foreclosure Sale

Overview

Introduction Pre-foreclosure sale is an option available under Noncurable default as illustrated in the process below.



Contents This part contains the following topics.

Topic	Topic Name	See Page
1	Pre-Foreclosure Sale Overview	3-C-1-2
2	Pre-Foreclosure Sale Procedure	3-C-1-5

1. Pre-Foreclosure Sale Overview

Introduction This topic contains information on the general guidelines when considering the pre-foreclosure sale option, namely

- the definition of a pre-foreclosure sale
 - period of consideration for a pre-foreclosure sale
 - duration of a pre-foreclosure sale plan
 - loan requirements for a pre-foreclosure sale
 - borrower requirements for a pre-foreclosure sale
 - property requirements for a pre-foreclosure sale, and
 - documentation requirements for a pre-foreclosure sale.
-

Change Date January 9, 2007

a. Definition: Pre-Foreclosure Sale The **pre-foreclosure sale** (PFS) option allows a borrower in default to sell his or her home and use the sale proceeds to satisfy the mortgage debt even if the proceeds are less than the amount owed.

 This option is appropriate for a borrower who has experienced an involuntary inability to pay that prevents the borrower from meeting their mortgage obligation.

b. Period of Consideration for a Pre-Foreclosure Sale Within six months of the date of default, the Servicer must decide to

- allow a PFS
- commence foreclosure, or
- initiate another loss mitigation option.

 If the PFS follows a failed special forbearance agreement, the PFS, foreclosure or other option should be initiated within 90 days of the failure.

Continued on next page

1. Pre-Foreclosure Sale Overview, Continued

c. Duration of a Pre-Foreclosure Sale Plan

The pre-foreclosure sale period should be *three months* beginning upon the Servicer's approval.

- Once a pre-foreclosure plan has been approved, the plan should be reviewed every thirty days to evaluate the current market conditions. Maintaining dialogue with the borrower and realtor during the time the subject property is on the market increases the probability of a sale.
 -  • If 90 days have passed without a scheduled closing, the Servicer should discuss the likelihood of a sale with the real estate broker and document any decision in the servicing notes regarding
 - ending the pre-foreclosure sale period, or
 - extending it for an additional 30 days, if a sale is likely.
 - If the property is under contract at the end of the marketing period, the Servicer may extend the PFS period for 60 days, not to exceed a total of 180 days.
-

d. Loan Requirements for a Pre-Foreclosure Sale

In order for a loan to be considered for a pre-foreclosure sale, the loan must be in default (delinquent) for more than 30 days at the time the pre-foreclosure sale is closed.

-  A borrower who successfully sells the property securing the loan using the PFS option is relieved of the mortgage obligation. The borrower shall not be pursued for deficiency judgments by either the Servicer or the Agency.
-

e. Borrower Requirements for a Pre-Foreclosure Sale

The PFS option may be extended to a borrower who is in default due to a verified involuntary inability to pay.

-  • Agency pre-approval is required for non-occupant borrowers when it is verified that the need to vacate is related to the cause of the default (job loss, transfer, divorce, death).
- A Servicer may exercise discretion to accept an application from a borrower who is facing imminent default, and if the loan will be in default by the time the pre-foreclosure sale is completed. The decision must be documented in the servicing file.
 - PFS is not available to borrowers who have abandoned their mortgage obligation despite their continued ability to pay.
-

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1. Pre-Foreclosure Sale Overview, Continued

f. Property Requirements for a Pre-Foreclosure Sale

Acceptable Properties

The following types of properties may be considered for a PFS.

- The property has marketable title and any junior liens have been satisfied or the lien holder has agreed to release their lien as a condition of sale.

Unacceptable Properties

The following types of properties should not be considered for a PFS.

- Properties that have sustained serious damage (from fire, flood, earthquake, tornado, or other man made or natural disasters) should not be considered for PFS if the cost of repair exceeds 10 percent of the As Repaired appraised value.



- Acquisition of the property does not extinguish junior liens or terminate tenancies.
 - The Servicer may exercise discretion to accept or reject a damaged property when the repair costs are less than the 10 percent threshold, but should document the decision in the servicing file.
-

g. Documentation Requirements for a Pre-Foreclosure Sale

The documentation requirements for a pre-foreclosure sale differ depending on the type of borrower.

Employee in a private or public organization

- SFHGLP Servicing Plan
- Letter from borrower outlining failure to pay/hardship
- Current pay-stub
- BPO/appraisal
- Sales contract/[HUD-1](#), and
- Credit report.

Self Employed

- Year-to-date profit and loss statement
- Previous year's profit and loss statement, and
- Previous year's signed tax return.



For additional information on documentation, LMG 4.5.

2. Pre-Foreclosure Sale Procedure

Introduction This topic contains information on

- pre-foreclosure request evaluation
- pre-foreclosure sale procedure
- obtaining a market value appraisal
- obtaining a title report
- pre-foreclosure sale failure, and
- agency action for a pre-foreclosure sale.

Change Date January 9, 2007

a. Pre-Foreclosure Request Evaluation The PFS process must be initiated by the borrower, who must submit an application to exercise the PFS option.
Follow the steps outlined below to evaluate the PFS request.

Step	Action
1	Request for the borrower’s financial information such as <ul style="list-style-type: none"> • a credit report • detailed budget, and • income verification.  <ul style="list-style-type: none"> • The Servicer should retain this in the file should the Agency require them for approval. • The Servicer is encouraged to proactively solicit participation by a borrower who is in default on an SFHGLP first mortgage and who is unable to cure the default.
2	Provide the defaulted borrower with a copy of the Servicer’s PFS criteria, which may specify that <ul style="list-style-type: none"> • the property should be owner occupied • the borrower must maintain the property, utilities, and so on, and • the property must be listed for no longer than 90 days.  If there are no contracts on the subject property after 30 days, but no more than 90 days, the sales price should be reviewed and lowered to reflect current market conditions if appropriate.

Continued on next page

2. Pre-Foreclosure Sale Procedure, Continued

a. Pre-Foreclosure Request Evaluation (continued)

Step	Action
3	<p>Ask the borrower to sign and return the application with the required financial information. This acknowledges the receipt of housing counseling, and documents that the borrower agrees to</p> <ul style="list-style-type: none"> • list the property with a licensed real estate broker unrelated to the borrower • make a good faith effort to aggressively market the property, and • perform all normal property maintenance and repairs until closing of the pre-foreclosure sale. <p> The listing agreement should include a specific cancellation clause in the event the terms of a sale are not acceptable.</p>
4	<p>Obtain a recent market value appraisal and preliminary title report to determine the feasibility of the PFS.</p> <p> For additional information on</p> <ul style="list-style-type: none"> • market value appraisals, see LMG 3.C.1.2.c. • title reports, see LMG 3.C.1.2.d.
5	<p>Determine the borrower’s capacity to support the mortgage debt by</p> <ul style="list-style-type: none"> • reviewing the borrower’s present and anticipated financial condition, and • projecting the borrower’s surplus monthly income.
6	<p>Use good business judgment to decide whether to approve or reject the PFS request.</p> <p>If the request is <i>approved</i>, go to LMG 3.C.1.2.c. If the request is <i>denied</i>, inform the borrower of the decision.</p>

-  • The Servicer is responsible for inspection, protection, and preservation of the property between the 45th day of default and the date it approves the borrower’s PFS request.
- Funds spent for preservation and protection may be reimbursed.

Continued on next page

2. Pre-Foreclosure Sale Procedure, Continued

b. Pre-Foreclosure Sale Procedure

The table below outlines the steps to be followed if the pre-foreclosure sale is approved.

Step	Action
1	Obtain a commitment from the borrower to actively market the property for a period of at least three months.  Foreclosure action must be delayed when the property is on the market.
2	Review the marketing efforts with the borrower each month.  The borrower’s participation in the PFS option may be terminated for any of the following reasons: <ul style="list-style-type: none"> • unresolvable title problems • determination that the borrower is not acting in good faith to market the property, or • voluntary withdrawal by the borrower.
3	Is the property going to be sold? <ul style="list-style-type: none"> • If <i>no</i>, go to Step 4. • If <i>yes</i>, go to Step 5.
4	Encourage the borrower to convey the property through a deed-in-lieu of foreclosure.
5	Review the signed Contract for Sale within five calendar days.  <ul style="list-style-type: none"> • The transaction is an outright sale of the premises. No sale by assumption may be considered, regardless of provisions for release of liability. • There can be no hidden terms or special understandings between any of the parties involved in the transaction; that is the buyer, seller, appraiser, sales agent, closing agent, and Servicer.

Continued on next page

2. Pre-Foreclosure Sale Procedure, Continued

b. Pre-Foreclosure Sale Procedure (continued)

Step	Action
6	<p>Approve the sale contract if the net sales proceeds are at least 82 percent of the home’s “As-Is” appraised value.</p> <p> “Net Sales Proceeds” is defined as the contract price less</p> <ul style="list-style-type: none"> • sales commission (usually six percent or less) • property repairs required by the appraisal, and • local/state transfer tax stamps and other customary closing costs including the seller’s costs for a title search and title insurance.
7	<p>Provide the closing agent with a list of all amounts payable out of the sale proceeds.</p> <p> Settlement costs which may not be included in the net sales proceeds calculation are</p> <ul style="list-style-type: none"> • tax service fees and other property transfer costs normally paid by the buyer • home warranty fees • repairs not stipulated in the appraisal • survey costs, and • lawyer’s fees for representing the seller (apart from conducting the settlement or review of documents).
8	<p>Before the final approval for closing, review the HUD-1 to ensure that it complies with earlier closing cost estimates.</p>
9	<p>On closing the sale</p> <ul style="list-style-type: none"> • report the pre-foreclosure sale to national credit bureaus as a “short sale,” and • file Form 1099-A with the IRS and reporting any discharge of indebtedness, in accordance with the Internal Revenue Code.

Continued on next page

2. Pre-Foreclosure Sale Procedure, Continued

c. Obtaining a Market Value Appraisal

Follow the steps in the table below to obtain a market value appraisal.

Step	Action
1	Obtain a standard market value appraisal from an appraiser that <ul style="list-style-type: none"> • contains both “As Is” and “As Repaired” values for the property, and • is valid for six months.  <ul style="list-style-type: none"> • The appraiser must not share any interest with the borrower or borrower’s agent. • Appraisals or opinions of value provided by the borrower, or borrower’s real estate agent are not acceptable.
2	Share a copy of the appraisal with the homeowner or sales agent, if requested.
3	Review the appraisal and confirm that it represents the fair market value of the subject property.  The original list price of the property must reflect its fair market value.
4	Reimburse the cost of the appraisal in the loss claim.

Continued on next page

2. Pre-Foreclosure Sale Procedure, Continued

d. Obtaining a Title Report Follow the steps outlined below to obtain a title report on the property.

Step	Action
1	Obtain a title search or preliminary title report to check for <ul style="list-style-type: none"> • unresolvable title problems, or • junior liens that cannot be discharged.
2	Did the search yield any issues? <ul style="list-style-type: none"> • If <i>yes</i>, go to Step 3. • If <i>no</i>, approve the borrower's PFS application.
3	Can the junior liens and other title issues be resolved? <ul style="list-style-type: none"> • If <i>yes</i> <ul style="list-style-type: none"> – approve the borrower's PFS application, and – pursue a resolution of the title issues concurrently with the marketing effort. • If <i>no</i>, the loan must be referred to foreclosure.

e. Pre-Foreclosure Sale Failure

Commence foreclosure or obtain a deed-in-lieu of foreclosure if a closing of an approved PFS has not occurred within

- 90 days of the expiration of the pre-foreclosure sale period, or
- 180 days from the date of default (whichever is later).

 If the borrower's financial condition improves significantly to the point that a cure of the delinquency is a viable option, a special forbearance agreement or a loan modification may be provided. In this case

- complete the action within the 90-day period, and
- fully justify the decision in the claim review file.

Continued on next page

2. Pre-Foreclosure Sale Procedure, Continued

f. Agency Action for a Pre-Foreclosure Sale

The loss claim under the loan note guarantee must be submitted to the Agency within 30 days after the date of the PFS closing. The Agency will reimburse

- reasonable and customary costs of the appraisal
- title search (if not included in the settlement statement),
- allowable percentage of legal fees for a foreclosure postponed pending completion of PFS (if applicable)
- reasonable costs of preservation and protection, and
- disbursements for
 - taxes
 - assessments
 - hazard insurance, and
 - other allowable items payable before the date of the PFS closing.

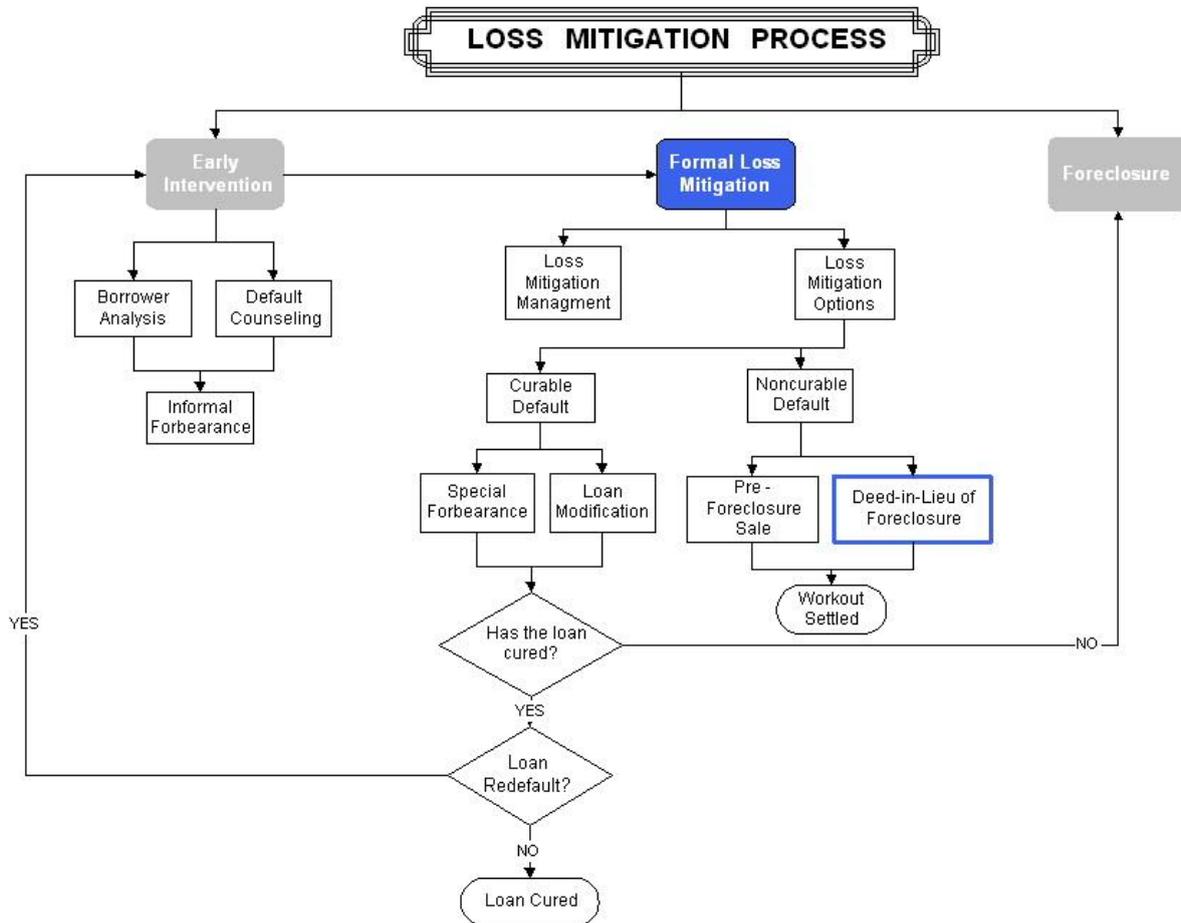
 The Agency will not pay costs related to the property incurred after the closing date.

Chapter 3. Section C. Noncurable Defaults

Part 2. Deed-in-Lieu of Foreclosure

Overview

Introduction Deed-in-lieu of foreclosure is another option available under Noncurable default as illustrated in the process below.



Contents This part contains the following topics.

Topic	Topic	See Page
1	Deed-in-Lieu of Foreclosure Overview	3-C-2-2
2	Deed-in-Lieu of Foreclosure Procedure	3-C-2-5

1. Deed-in-Lieu of Foreclosure Overview

Introduction This topic contains general guidelines to be followed when considering a deed-in-lieu of foreclosure, namely

- the definition of a deed-in-lieu of foreclosure
 - deed-in-lieu of foreclosure benefits
 - period of consideration for a deed-in-lieu of foreclosure
 - duration of a deed-in-lieu of foreclosure
 - borrower requirements for a deed-in-lieu of foreclosure
 - property requirements for a deed-in-lieu of foreclosure, and
 - documentation requirements for a deed-in-lieu of foreclosure.
-

Change Date January 9, 2007

a. Definition: Deed-in-Lieu of Foreclosure Deed-in-lieu of foreclosure (DIL) is a disposition option in which a borrower voluntarily deeds the collateral property to the Servicer in exchange for a release from all obligations under the mortgage.

 A DIL may not be considered if a deficiency judgment will be pursued against the borrower.

b. Deed-in-Lieu of Foreclosure Benefits

Borrower

A DIL is usually preferable to foreclosure for a borrower because

- the cost and emotional trauma of foreclosure are reduced, and will prevent a foreclosure from being reported on borrower's credit bureau.

SFHGLP

SFHGLP prefers a DIL to foreclosure because

- it avoids the time and expense of a legal foreclosure action, and
 - the property is generally in better physical condition at acquisition due to the cooperative nature of the transaction.
-

Continued on next page

1. Deed-in-Lieu of Foreclosure Overview, Continued

c. Period of Consideration for a Deed-in-Lieu of Foreclosure

The loan must be in default (delinquent) for *more than 30 days*.

d. Duration of a Deed-in-Lieu of Foreclosure

A DIL must be completed or foreclosure initiated within six months of the date of default.

The DIL may be completed

- within three months of the date of default, following a failed special forbearance agreement or pre-foreclosure sale.
- within nine months of the date of default, following any other loss mitigation action.



The six month period may be extended if the extension is approved by the Agency before the six month period expires.

e. Borrower Requirements for a Deed-in-Lieu of Foreclosure

The DIL option may be extended to a borrower who

- occupies the property as a primary residence, and
- is unable to continue to support the mortgage debt.



A non-occupant borrower may be offered a DIL with prior approval from the Agency provided

- the need to vacate was related to the cause of the default (job loss, mandatory job transfer, divorce, death), and
- the subject property was not purchased as a rental investment, or used as a rental for more than 12 months.



A borrower who successfully conveys the property securing the loan with a deed-in-lieu of foreclosure is relieved of his debt. The borrower shall not be pursued for deficiency judgments by either the Servicer or the Agency.

Continued on next page

1. Deed-in-Lieu of Foreclosure Overview, Continued

f. Property Requirements for a Deed-in-Lieu of Foreclosure

The condition of the property and the title must meet minimum standards. For example, the property must not

- have any type of structural damage, environmental hazard, or condition that poses a health or safety risk
 - pose risk of property ownership, or
 - have any other liens or encumbrances filed against it, or if so the lien holder must agree to release its lien.
-

g. Documentation Requirements for a Deed-in-Lieu of

A DIL requires a written agreement with the borrower, and contains all of the conditions under which the deed will be accepted, such as

- certification that the borrower does not own any other property subject to a mortgage
- specific transfer date
- notification that there may be income tax consequences as a result of the DIL
- acknowledgment that borrowers who comply with all of the requirements of the agreement shall not be pursued for deficiency judgments
- a statement describing the general physical condition in which the property will be conveyed
- agreement that the borrower will convey the property vacant and free of personal property unless the Servicer has approved occupied conveyance
- itemization of the keys, built-in fixtures and equipment to be delivered to the Servicer on or before the transfer date, and
- an agreement to provide evidence that certain utilities, assessments and homeowner's association dues are paid in full to the transfer date unless otherwise agreed to by the parties.



For additional information on documentation, see LMG 4.5.

2. Deed-in-Lieu of Foreclosure Procedure

Introduction This topic contains information on

- deed-in-lieu of foreclosure procedure
- deed-in-lieu of foreclosure failure, and
- agency action for a deed-in-lieu of foreclosure.

Change Date January 9, 2007

a. Deed-in-Lieu of Foreclosure Procedure Follow the steps outlined below when offering a deed-in-lieu of foreclosure.

Step	Action
1	<p>Document that the loan is in default, and the cause of the default is incurable.</p> <p> For a borrower whose loan is current but who is facing imminent default</p> <ul style="list-style-type: none"> • obtain Agency prior approval for a DIL agreement, and • document the decision in the servicing file.
2	<p>Determine the borrower's financial condition by</p> <ul style="list-style-type: none"> • projecting the borrower's surplus monthly income for a minimum of three months, and • determining if the borrower has the capacity to support the mortgage debt. <p> Under no circumstances shall a DIL be available to a borrower who has abandoned the mortgage obligation despite the continued ability to pay.</p>
3	<p>Conduct a complete title search to confirm a good and marketable title to the property.</p>
4	<p>Verify that the DIL agreement is in compliance with all applicable laws and regulations.</p>

Continued on next page

2. Deed-in-Lieu of Foreclosure Procedure, Continued

a. Deed-in-Lieu of Foreclosure Procedure (continued)

Step	Action
5	Use a special warranty deed to convey the property. 💡 The original credit instrument is canceled and surrendered to the borrower, indicating that the debt has been satisfied.
6	Record the satisfaction of lien and the deed.
7	Report the DIL to the credit bureaus.
8	File Form 1099-A with the IRS, and report any discharge of indebtedness in accordance with the Internal Revenue Code

b. Deed-in-Lieu of Foreclosure Failure

If a DIL fails, then foreclosure is the next step.

c. Agency Action for a Deed-in-Lieu of Foreclosure

The Agency will reimburse the Servicer for

- reasonable and customary costs of the appraisal
- title search
- allowable legal fees
- reasonable costs of preservation and protection, and
- disbursements for
 - taxes
 - assessments
 - hazard insurance, and
 - other allowable items payable before the DIL conveyance date are also reimbursable.

💡 The Agency will not pay costs related to the property that are incurred after the DIL conveyance date.

Chapter 4. Appendices

Overview

Contents

This chapter contains the following appendices.

Appendix	Appendix Name	See Page
1	Glossary	4-2
2	Loss Mitigation Timeline	4-20
3	Single Family Housing Guaranteed Loan Program (SFHGLP) Servicing Plan	4-22
4	Loss Mitigation Checklist	4-24
5	Documentation Requirements Matrix	4-30
6	SFHGLP Contact List	4-32
7	Status of Mortgage Codes	4-35

1. Glossary

Introduction This topic contains the definitions for some of the most common terms used in the Loss Mitigation Process.

Change Date January 9, 2007

a. Abandoned Mortgage Obligation **Abandoned Mortgage Obligation** is the situation when

- a borrower fails to honor the obligations under the terms and conditions of the mortgage.

Examples of an abandoned mortgage obligation occur when

- the borrower has physically vacated the property
 - the mortgage is three or more payments past-due, and
 - the default was not of an involuntary nature.
-

b. Acceleration **Acceleration** is the exercise of a mortgage clause that gives the mortgagee the right to declare the entire loan due before maturity under specified conditions, usually default. Demand for immediate repayment of the entire balance of debt if security instruments are breached.

c. Acquired Property **Acquired Property** is a property owned by the Servicer as a result of a foreclosure or acceptance of a deed-in-lieu; often referred to as “real estate owned.”

For additional information, see **Real Estate Owned** LMG 4.1.ci.

Continued on next page

1. Glossary, Continued

- d. Acquisition Date** **Acquisition Date** is the date
- of foreclosure sale, or
 - the date the title is lawfully transferred to Servicer, or deed-in-lieu recordation.
-
- e. Additional Interest** **Additional Interest** is the amount of interest accrued on the amount of the principal loss between the settlement date and the loss claim check date on a properly filed claim.
-  See RD Instruction 1980-D, section 1980.376(a).
-
- f. Additional Recovery** **Additional Recovery** are any proceeds recovered by the Servicer occurring after
- a previously paid loss payment, or
 - report of a Real Estate Owned (REO) sale.
- Additional recovery is to be reported to the Agency through use of the Additional Recovery Calculator.
- Examples:** Examples of additional recovery include
- a trailing insurance refund, and/or
 - collection of a deficiency judgment, or similar proceeds.
-  The Additional Recovery Calculator is a form used to report additional recoveries post claim settlement.
-  For additional information, see **Other Recovery** at LMG 4.1.cd.
-
- g. Affidavit** An **Affidavit** is a written statement made under oath before an officer of the court or notary public.
-

Continued on next page

1. Glossary, Continued

h. Agency	The Agency refers to the Rural Housing Service (or its successor agency) within the Rural Development mission area of the U.S. Department of Agriculture that administers the Single Family Guaranteed Rural Housing Program, formerly the Rural Housing and Community Development Service, a successor agency to the Farmers Home Administration.
i. Amortization	Amortization is the repayment of a mortgage debt with equal periodic payments of both principal and interest, calculated to retire the obligation at the end of a fixed period of time.
j. Appraisal	An Appraisal is an opinion or estimate of value. It also refers to the process by which a value estimate is obtained.
k. Appraised Value	Appraised Value is an opinion of value reached by an appraiser based upon <ul style="list-style-type: none">• knowledge• experience, and• a study of pertinent data.
l. Appraiser	An Appraiser is a person qualified by education, training and experience to estimate the value of real and personal property.
m. Arm's Length Transaction	An Arm's Length Transaction is a proceeding where the agents involved deal completely with each other as strangers and do not collude.
n. Attorney Fees	Attorney Fees are actual fees incurred associated with the most recent liquidation action. The following conditions apply to attorney fees, namely <ul style="list-style-type: none">• they do not include costs• the maximum claimable expense varies from State to State, and• they are applicable to foreclosure and bankruptcy.

Continued on next page

1. Glossary, Continued

o. Attorney Costs **Attorney Costs** are actual costs incurred associated with the most recent liquidation action. The following conditions apply to attorney costs, namely they

- do not include attorney fees, and
 - are applicable to foreclosure and bankruptcy.
-

p. Automatic Stay **Automatic Stay** is a provision of the Federal Bankruptcy Code that stops any act that can be construed to be an act against the interests of the debtor or the debtor's property.

 For additional information, see **Relief From Automatic Stay** at LMG 4.1.cl.

q. Bankrupt **Bankrupt** refers to person, firm or corporation who, through a court proceeding, is relieved from the payment of all debts after the surrender of all assets to a court-appointed trustee, for the protection of creditors. Bankruptcy may be declared under one of several chapters of the Federal bankruptcy code, namely

- Chapter 7, which covers individual or business bankruptcy liquidation
 - Chapter 11, which covers reorganization of bankrupt businesses
 - Chapter 12, which covers certain farm bankruptcies, and
 - Chapter 13, which covers workouts of debts by individuals in which a debtor retains possession of property while making payments to creditors under a court approved plan.
-

r. Bankruptcy Discharge **Bankruptcy Discharge** is a legal petition releasing the debtor from all dischargeable debts.

s. Bankruptcy Dismissal **Bankruptcy Dismissal** is a legal order as a result of a motion filed by either the debtor or another interested party seeking to dismiss the bankruptcy case.

Continued on next page

1. Glossary, Continued

t. BPO



See **Broker Price Opinion**, at LMG 4.1.u.

u. **Broker Price Opinion (BPO) or Broker Opinion Of Value (BOV)**

Broker Price Opinion is used to estimate the value of a property based upon a comparison to other similar properties recently sold.

It is also known as comparative market analysis (CMA).

v. **Capital Improvement**

Capital Improvement is any structure or component erected as a permanent improvement to real property, which adds to its value and useful life.

w. **Capitalization**

Capitalization is the adding of expected payments to the remaining unpaid balance of the loan.

x. **Cash Flow**

Cash Flow is money left from gross income after all expenses, both operating and debt service, have been deducted.

y. **Closing Costs**

Closing Costs are costs incurred by buyers and sellers to effect the closing of a mortgage loan.



For additional information, see **Sales Expenses** at LMG 4.1.co.

z. **Closing Date**

Closing Date, in real estate, refers to the delivery of a deed, financial adjustments, the signing of notes and the disbursement of funds necessary to consummate a sale or loan transaction.



For additional information, see **Settlement Date** at LMG 4.1.cr.

aa. **Comparative Market Analysis**



See **Broker Price Opinion (BPO)**, at LMG 4.1.u.

Continued on next page

1. Glossary, Continued

ab. Collateral	Collateral is property pledged as security for a debt. For example, real estate pledged as security for a mortgage.
ac. Comparables	Comparables are properties used for comparative purposes in the appraisal process that have similar characteristics to the subject property.
ad. Condominium	A Condominium is a form of property ownership whereby the purchaser receives title to a specified residential unit and a proportionate interest in common areas of the condominium project in which the unit is located.
ae. Confirmation Hearing (Bankruptcy)	A Confirmation Hearing (bankruptcy) is where the Debtors proposed Chapter 13 plan is reviewed and either approved or denied by the Bankruptcy Judge.
af. Confirmation Hearing (Foreclosure)	A Confirmation Hearing (foreclosure) is a hearing where the Sheriff's Sale is confirmed and the title is transferred to the successful bidder from the sale.
ag. Confirmation of Bankruptcy Plan	A Confirmation of Bankruptcy Plan is a Bankruptcy Court order which approves a debtor's plan to pay the debts owed to his/her/their creditors as of the date of the filing of the bankruptcy petition. In some jurisdictions, Confirmation may be referred to as "Ratification."
ah. Credit Repository or Credit Bureau	A Credit Repository or Credit Bureau is an institution that for a fee provides historical credit records of individuals provided to them by creditors subscribing to their services.
ai. Debt Collection Improvement Act (DCIA)	The Debt Collection Improvement Act of 1996 centralized the government-wide collection of delinquent debt. The Financial Management Service (FMS) is the US Treasury agency responsible implementation of the debt collection provisions of the DCIA.

Continued on next page

1. Glossary, Continued

aj. Deed-In-Lieu	A Deed-In-Lieu of Foreclosure is a voluntary transfer of title on a defaulted mortgage by deed from the borrower to the Servicer as an alternative to foreclosure. By arrangement between the parties, the Servicer saves the expense of foreclosure and the borrower generally expects to receive credit for payment of the debt in full.
ak. Deed of Trust	A Deed of Trust is a type of security instrument in which the borrower conveys a trust to hold property to a third party (trustee) as security for the lender, with the condition that the trustee shall reconvey the title upon the payment of the debt and, conversely, will sell the land and pay the debt in the event of a default by the borrower.
al. Default Judgment	A Default Judgment is a judgment entered in a lawsuit when a defendant has failed to enter a plea or otherwise defend himself.
am. Defendant	A Defendant is any person or entity that is being sued.
an. Deficiency	Deficiency is the difference between the balance outstanding on a loan and proceeds from the sale of the loan collateral.
ao. Deficiency Judgment	Deficiency Judgment is a court order to pay the balance owed on a loan if the proceeds from the sale of the security are insufficient to pay off the loan.
ap. Default	<p>Default is a breach or nonperformance of the terms of a note or the covenants of a mortgage.</p> <p>For additional information see</p> <ul style="list-style-type: none"> • Delinquency, at LMG 4.1.aq. • Default Loans, at 7 CFR 1980.371.

Continued on next page

1. Glossary, Continued

aq. Delinquency Sometimes used synonymously with default, **Delinquency** is a type of default where the breach or nonperformance is non payment.



For additional information see **Default**, LMG 4.1.ap.

ar. Depreciation **Depreciation** is a sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.

as. Due Date of Last Paid Installment (DDLPI) **Due Date of Last Paid Installment** is the due date of the last fully paid monthly installment of principal, interest and escrow (if any), not the date on which such payment was credited or the date of the next scheduled installment.

at. Due-on-Sale Clause A **Due-on-Sale Clause** in the mortgage providing that if the mortgagor sells, transfers, or in any way encumbers the property, the mortgagee has the right to implement the acceleration clause making the balance of the obligation due. Also known as encumbrance. See also **Garn-St. Germain Act**, LMG 4.1.bg.

au. Escrow Balance **Escrow Balance** is the balance of the escrow account as of the application of the last borrower payment.

av. ENR  See **Estimated Net Recovery** LMG 4.1.aw.

aw. Estimated Net Recovery (ENR) **Estimated Net Recovery** is the figure used by Rural Development to settle a loss claim on an unsold REO. A Servicer's ENR is based on a liquidation value appraisal to which is applied the current REO cost factor to estimate REO expenses to be deducted.

Continued on next page

1. Glossary, Continued

ax. Eviction Action **Eviction Action** is a court action to obtain possession of premises by the person entitled to actual possession. It may also be known as forcible entry and detainer (FED).

 For additional information on **FED**, see LMG 4.1.ay.

ay. FED **FED** is forcible entry and detainer. It may also be referred to as an eviction action.

 For additional information on **Eviction Action**, see LMG 4.1.ax.

az. First Legal Action **First Legal Action** is the date of first action required by law to initiate foreclosure. Action varies by State.

 For additional information on **Foreclosure Initiation**, see LMG 4.1.bd.

ba. First Lien A **First Lien** is any lien that meets both of the following requirements: The lien is acceptable to private institutional first-mortgage investors in the area where the mortgaged premises are located, and, The lien grants to the lien holder a claim against the property that, under the law of the jurisdiction where the mortgaged premises are located, is prior to the rights of all others, subject only to prior liens and encumbrances expressly waived.

bb. Forbearance **Forbearance** is the act of refraining from taking legal action despite the fact that a mortgage is in arrears. It is usually granted only when a mortgagor makes a satisfactory arrangement by which the arrears will be paid at a later date.

bc. Foreclosure **Foreclosure** is a legal procedure in which a mortgaged property is sold to pay the outstanding debt in case of default.

Continued on next page

1. Glossary, Continued

bd. Foreclosure Initiation

Foreclosure Initiation is the date of the first legal action required by law to initiate foreclosure. Action varies by State.



For additional information, see **First Legal Action** at LMG 4.1.az.

be. Foreclosure Sale

Foreclosure Sale is a forced sale of mortgaged property at public auction conducted either by the court or in some other prescribed fashion, with the proceeds of the sale going to satisfy the debt. The Servicer is usually the successful bidder at the foreclosure sale.

bf. Future Recovery

Future Recovery is the recovery of additional funds to be applied to the REO account subsequent to the settlement of the original loss claim payment.



- Report future recovery after the sale of the REO by utilizing the Future Recovery Calculator. For additional information, refer to Rural Development Administrative Notice No. 4138 Exhibit D.
 - Report other recovery using the Additional Recovery (Post Sale) Calculator. For additional information, refer to Rural Development Administrative Notice No. 4138 Exhibit E.
-

bg. Garn-St. Germain Act

In 1982, Congress passed the **Garn-St.Germain Depository Institutions Act** that provides that due-on-sale clauses are enforceable notwithstanding contrary State law. However, the act excludes from its coverage certain loans made during certain "window" periods when there may have been State law protection, and exempts certain specified transfers. See OGC's Compilation of Laws.

bh. Guaranteed Loan System (GLS)

Guaranteed Loan System is the currently used automated loan accounting system for RHS guaranteed rural housing loans.

bi. Hazard

Hazard is a definition of the condition of the property that jeopardizes the health or safety of the occupants or members of the community. A property defined as a hazard does not necessarily make it unfit for habitation.

Continued on next page

1. Glossary, Continued

bj. Hazard Insurance

Hazard Insurance is the insurance coverage that provides compensation to the insured in case of property loss or damage.

bk. Housing Counseling Clearinghouse (HCC)

A **Housing Counseling Clearinghouse** is a HUD-established service for financially distressed mortgagors to call (1-800-569-4287) for information on HUD-approved housing counseling agencies. Required by the HUD Act of 1968, lenders must notify all eligible delinquent borrowers of the availability of housing counseling for residential mortgage loans, whether conventional, government insured or government guaranteed, including loans, direct or insured, by Federal, State and local governmental agencies.

bl. HUD-1 Settlement Statement

The **Settlement Statement** is a loan closing document, listing

- funds paid by the Buyer and Seller
- the distributions of those funds, and
- the remaining cash that should go to the Seller.

The settlement statement refers to the Buyer as the "Borrower" because the Buyer is the one taking out a real estate mortgage.

bm. Interest Rate

Interest Rate is the percentage paid for the use of money, usually expressed as an annual percentage.

bn. Junior Lien

Junior Lien is a Lien or claim against a property that is secondary or inferior to the lien of the first mortgage. For example, a second mortgage.

Continued on next page

1. Glossary, Continued

**bo.
Liquidation**

Liquidation of the loan occurs when

- the Servicer acquires title to the security
- a third party buys the property at the foreclosure sale, or
- the borrower sells the property to a third party in order to avoid or cure a default situation with the prior approval of the Servicer and RHS.

 In States providing a redemption period, the Servicer does not typically acquire title until after expiration of the redemption period.

bp. Loan-to-Value Ratio (LTV)

The **Loan-to-Value Ratio** is the ratio of mortgage amount to appraised value or sales price of real property. Used by lenders to determine maximum loan amounts as set by law.

bq. Loss Claim

Loss Claim is the method by which the Agency provides reimbursement to a Servicer who has fulfilled all program requirements, but has incurred a loss on a guaranteed loan.

br. Loss Mitigation

Loss Mitigation refers to a Servicer's efforts with a borrower to

- work out a delinquency, or
- resolve a defaulted loan to maximize recovery and avoid foreclosure.

Loss Mitigation actions may include extension of loan terms, forbearance, moratorium, modification, refinancing, short sale or deed-in-lieu.

bs. Maintenance Costs

Maintenance Costs are recurring fees associated with holding custodial or REO property.

Example: Yard maintenance and/or mowing.

Continued on next page

1. Glossary, Continued

bt. Marketable Title A **Marketable Title** is a title that is free from material defects and under which a purchaser may have quiet and peaceful enjoyment of the property subject to easements, covenants and restrictions readily acceptable to a well-informed buyer. Also known as merchantable title.

bu. Market Value **Market Value** is the most probable price that a property should bring after reasonable exposure in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably.

bv. Mortgage A **Mortgage** is a formal document executed by an owner of property, pledging that property as security for payment of a debt or performance of some other obligation; the security instrument.

 For additional information, see **Deed of Trust**, at LMG 4.1.ak.

bw. Mortgagor A **Mortgagor** is the borrower in a mortgage transaction who pledges property as a security for the debt.

bx. Motion Requesting Relief from Stay **Motion Requesting Relief from Stay** is a pleading filed in a bankruptcy case wherein the creditor requests that its collateral be removed from the automatic stay imposed by the bankruptcy filing.

by. NAD  For additional information, see **National Appeals Division** at LMG 4.1.bz.

bz. National Appeals Division (NAD) The **National Appeals Division** is the organization within the United States Department of Agriculture that is responsible for the Department's administrative appeals procedures for Servicers who desire to appeal an adverse decision made by the Agency.

Continued on next page

1. Glossary, Continued

ca. Net Recovery Value

Net Recovery Value is the market value of the security property minus

- anticipated expenses of liquidation
 - acquisition, and
 - sale as determined by the Agency.
-

cb. Note

A **Note** is a general term for any kind of paper or document signed by a borrower that is an acknowledgement of the debt, and is, by inference, a promise to pay. When the note is secured by a mortgage, it is called a "mortgage note" and the mortgagee is named as the payee.

cc. ORE

Owned Real Estate.

 For additional information, see the definition of **Real Estate Owned** (REO) at LMG 4.1.ci.

cd. Other Recovery

Other Recovery refers to the recovery (return of funds, refund, etc.) of funds not previously reported in the primary claim or report of REO sale.

Examples: Some examples of recovery are

- a delayed payment on an insurance refund
- collection of a deficiency judgment, or
- similar proceeds recovered.

 For additional information, see **Additional Recovery** at LMG 4.1.f.

ce. PITI

PITI is an acronym for the items included in a monthly loan payment: principal, interest, taxes and insurance.

Continued on next page

1. Glossary, Continued

cf. Pre-Foreclosure Sale

Pre-Foreclosure Sale is a procedure to avoid foreclosing on the property, in which

- the borrower is allowed to sell his or her property, and
- the investor and borrower agree to accept the proceeds of the sale to satisfy a defaulted mortgage.

The proceeds of the sale in a Pre-Foreclosure may be less than the amount owed on the mortgage.



For additional information, see **Short Sale** at LMG 4.1.ct.

cg. Preservation Costs

Preservation Costs are one time costs associated with securing and preserving a custodial or REO property.

Examples: Examples of preservation costs include

- changing locks
 - debris removal, or
 - winterization.
-

ch. Protective Advance

Protective Advance is an advance of funds by a Servicer for an emergency expense necessary to preserve or protect the physical security for the loan.

Examples: Examples of protective advances include

- escrow advances for hazard or force-placed insurance
- real estate property taxes, or
- attorney fees.



For the purposes of loss claim filing, advances may be claimed under liquidation or REO pending.

Continued on next page

1. Glossary, Continued

ci. Real Estate Owned (REO)	Real Estate Owned denotes real estate that has been acquired by a lending institution for investment or through foreclosure of mortgage loans. It is also called Owned Real Estate (ORE).
<hr/>	
cj. Redemption Right	 For additional information see, Right of Redemption at LMG 4.1.cn.
<hr/>	
ck. Referral Fees	Referral Fees are a portion of the commission paid to some Servicers in return for referring properties to a certain broker.
	 Referral fees from the broker, returning a portion of the commission to the servicer are to be treated as “other recovery.”
<hr/>	
cl. Relief from Automatic Stay	Relief from Automatic Stay is a legal action permitting a Servicer to resume action to collect on the debt.
	 For additional information, see Automatic Stay at LMG 4.1.p and LMG 4.1.bx.
<hr/>	
cm. REO	 For additional information, see Real Estate Owned at LMG 4.1.ci.
<hr/>	
cn. Right of Redemption	Right of Redemption , in some states, is a right permitting the borrower to reclaim foreclosed property by making full payment of the foreclosure sales price.
	 <ul style="list-style-type: none"> • The right of redemption exists for a specified period of time, called the "redemption period." • State statutes may provide for a waiver of redemption rights or an REO sale subject to redemption rights.

Continued on next page

1. Glossary, Continued

co. Sales Expenses

Sales Expenses are various fees paid by the seller at the time of real estate closing. Sales expense represents the total reduction due seller from the HUD-1.

cp. Sales Price

Sales Price is the amount REO property sold to third party.

 For additional information, see **Contract Price** from [HUD-1](#).

cq. Servicer

A **Servicer** may be defined as

- the organization making, holding, and/or servicing the loan which is guaranteed under the provisions of RD Instruction 1980-D Subpart D
- the party requesting the guarantee, or
- an entity purchasing an RHCDS guaranteed loan.

The Servicer is primarily responsible for originating, underwriting, servicing, and where necessary, liquidating the loan and disposing of the property in a manner consistent with maximizing the Government's interest. A purchasing Servicer acquires all the privileges, duties, and responsibilities of the origination Servicer.

cr. Settlement Date

The REO sold date establishes the **Settlement Date** for loss claims processed. The settlement date can also be

- the foreclosure sale date, for properties sold to third parties
- the short sale date
- the deed-in-lieu recording date, or
- the marketing period expiration or extension date.

 For additional information, see **Closing Date** at LMG 4.1.z.

cs. Sheriff's Sale

Sheriff's Sale is the public auction at which the property being foreclosed is offered for sale.

Continued on next page

1. Glossary, Continued

ct. Short Sale A **Short Sale** occurs when the Servicer releases its collateral interest for less than the indebtedness to accommodate a sale of the property to a third-party buyer.



For additional information, see ***Pre-Foreclosure Sale*** at LMG 4.1.cf.

2. Loss Mitigation Timeline

Introduction This topic contains

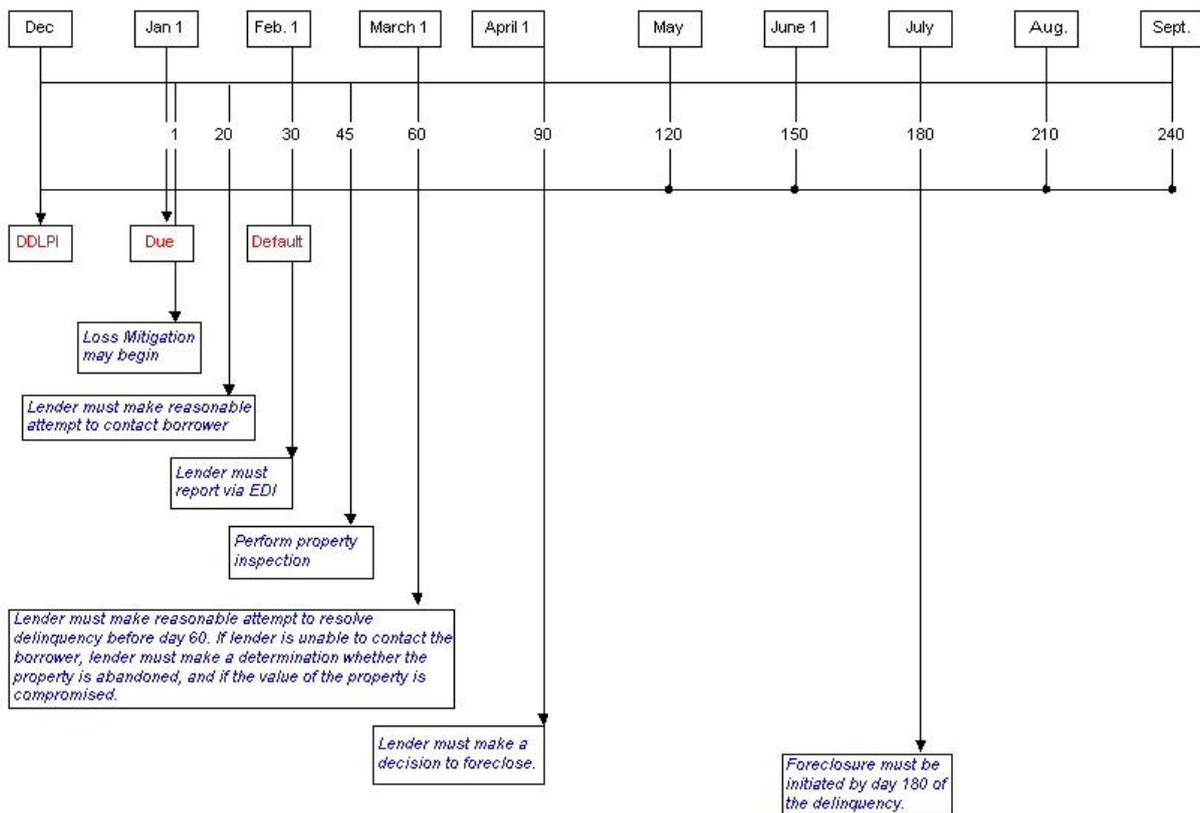
- a diagram illustrating the loss mitigation process timeline, and
- the loss mitigation phases and timeline.

Change Date January 9, 2007

a. Loss Mitigation Process Timeline Diagram

Loss Mitigation should be pursued during the timeline indicated below and up until the foreclosure sale date.

 Defaults are to be reported monthly.



Continued on next page

2. Loss Mitigation Timeline, Continued

b. Loss Mitigation Process Phases and Timelines

The table below lists the loss mitigation actions to be taken at different stages of the loan delinquency.

Date	Loan Status	Loan Delinquency Period	Loss Mitigation Action
December 1	Due Date of Last Paid Installment (DDLPI)	---	---
January 1	Payment Due	---	---
		1 day	Loss Mitigation may begin.
		20 days	Servicer must make reasonable attempt to contact borrower.
February 1	Loan Default	30 days	Servicer must report via EDI.
		45 days	Servicer must perform property inspection.
March 1	---	60 days	Servicer must make reasonable attempt to resolve delinquency before day 60. If Servicer is unable to contact the borrower, Servicer must make a determination whether the property is abandoned, and if the value of the property is compromised.
April 1	---	90 days	Servicer must make a decision to foreclose.
July 1	---	180 days	Foreclosure must be initiated.

3. SFHGLP Servicing Plan

Introduction	<p>This topic contains information on the Single Family Housing Guaranteed Loan Program (SFHGLP) Servicing Plan, namely</p> <ul style="list-style-type: none">• the purpose of the SFHGLP servicing plan• instructions on the use of the SFHGLP servicing plan, and• a sample SFHGLP servicing plan.
Change Date	<p>January 9, 2007</p>
a. Purpose of the SFHGLP Servicing Plan	<p>The SFHGLP Servicing Plan is used to document</p> <ul style="list-style-type: none">• the loan details• information about the property• financial information on the borrower, and• the recommended loss mitigation option.
b. Instructions for the Use of the SFHGLP Servicing Plan	<p>The Servicing Plan should be</p> <ul style="list-style-type: none">• completed no later than the 90th day of delinquency, and• submitted via e-mail or fax, regardless of the type of loss mitigation option being used.

Continued on next page

3. SFHGLP Servicing Plan, Continued

c. Sample SFHGLP Servicing Plan

A sample of the SFHGLP Servicing Plan is shown below.

Part A. Lender Information			
Servicer/ Holder:		Preparer:	Date:
Address:		Phone No.:	Fax No.:
City:		State:	Zip Code:
Part B. Loan Information			
Borrower:		Co-Borrower:	Lender Loan No.:
Borrower SSN:		Co-Borrower SSN:	Loan Origination Date:
DDLPI:	UPB:	Mo. Payment:	Total PITI Arrearage
\$	\$	\$	\$
Part C. Property Information			
Street Address:			
City:		State:	Zip Code:
Property Condition:	<input type="checkbox"/> Good	<input type="checkbox"/> Fair	<input type="checkbox"/> Poor
Occupancy Status:	<input type="checkbox"/> Owner Occupied	<input type="checkbox"/> Tenant Occupied	<input type="checkbox"/> Vacant
Is the Property Listed for Sale?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
List Price:	Days on Market:	Real Estate Agent:	Agent's Phone No.:
\$			
Part D. Financial Information			
Reason for Default:			
Monthly Net Income:	Monthly Expenses:	Mo. Surplus Income:	Liquid Assets:
\$	\$	\$	\$
Comments:			
(Continue on reverse if necessary)			
Part E. Property Valuation			
Valuation Date:	<input type="checkbox"/> Inspection	<input type="checkbox"/> Appraisal	<input type="checkbox"/> BPO
As Is Value:	As Repaired Value:	Estimated Cost of Repairs:	
\$	\$	\$	
Part F. Workout Recommendation			
<input type="checkbox"/> Special Forbearance	<input type="checkbox"/> Modification	<input type="checkbox"/> Pre-Foreclosure Sale	<input type="checkbox"/> Deed-In-Lieu
Outstanding Fees:	Capitalized Amount :	List Price	Foreclosure Initiation Date:
\$	\$	\$	
Total Arrearage Amt:	New Mo Payment:::	List Date:	Est. Foreclosure Sale Date:
\$	\$		
Agreement Term (mos.):	Old Interest Rate:	Marketing Period (days):	Fees & Costs to Date:
	New Interest Rate:		\$
Mo. Pmt Amount:	Maturity Date:	Commission %:	
\$			
	Junior Lien Amount:	MLS Listing (Y/N)?:	
	\$		
	Foreclosure Status:	Borrower Contribution:	
		\$	
	Income/Expense Ratio:		

4. Loss Mitigation Checklist

Introduction This topic contains information on the loss mitigation checklist, namely

- the purpose of the loss mitigation checklist
- instructions on the use of the loss mitigation checklist, and
- a sample loss mitigation checklist.

Change Date January 9, 2007

a. Purpose of the Loss Mitigation Checklist The purpose of the loss mitigation checklist is to verify that

- the borrower has provided all of the information required to consider the loan for a loss mitigation action
- proper loss mitigation actions have been followed, and
- any issues have been captured.

b. Guidelines for the Use of the Loss Mitigation Checklist The Loss Mitigation Checklist is intended to be a tool for the servicer to use as a guide when considering different loss mitigation options.

The Loss Mitigation Checklist is *not* to be submitted to the Agency unless specifically requested to do so.

Continued on next page

4. Loss Mitigation Checklist, Continued

c. Sample Loss Mitigation Checklist A sample of the Loss Mitigation Checklist is shown below.

Loan Number:	Date:	
Borrower Name:		
A. GENERAL		
1. Has the borrower experienced ...	a verified loss of income?	Y/N
	increase in living expenses?	Y/N
2. Does the borrower occupy the property as a primary residence?		Y/N
3. Did the borrower receive the "How To Avoid Foreclosure" brochure?		Y/N
4. Did the surplus income analysis to determine the borrower's ability to repay the debt include ...	a financial statement provided by the borrower?	Y/N
	a credit report?	Y/N
	income/expense verifications?	Y/N
5. What is the borrower's surplus ...	income?	\$ _____
	percentage?	%
6. Has the property inspection determined no adverse conditions affecting continued occupancy?		Y/N

Continued on next page

4. Loss Mitigation Checklist, Continued

c. Sample Loss Mitigation Checklist (continued)

B. SPECIAL FORBEARANCE		
7. Will the loan be more than 90 and less than 365 days delinquent?		Y/N
8. What is the effective date of the agreement?		___ days
9. Does the written agreement executed by the borrower ...	clearly define the terms and frequency of repayment?	Y/N
	offer relief not available through a normal repayment plan?	Y/N
	state that failure to comply may result in foreclosure?	Y/N
	limit the total default to 12 months or less?	Y/N
10. Will the special forbearance agreement culminate into a modification? (If yes, state the proposed date of the action.)		Y/N / /

Continued on next page

4. Loss Mitigation Checklist, Continued

c. Sample Loss Mitigation Checklist (continued)

C. LOAN MODIFICATION		
11. Does the borrower have a commitment to continue to occupy the property?		Y/N
12. Will the loan be more than 90 days delinquent on the date of execution? (If yes, state the number of days)		Y/N — days
13. Did the loan have a prior modification within the past three years? (If yes, justify the reason for approving a loan modification.)		Y/N
14. Will the borrower be able to make payments for at least 3 months?		Y/N
15. Why can't the default be cured through special forbearance? (Provide reason)		
16. Has a title search established first lien status of the modified loan?		Y/N
17. Will title endorsement be required?		Y/N
18. Will release of junior liens be required?		Y/N
19. Does the written modification agreement executed by the borrower ...	include all advances necessary to cure the delinquency of the principal, interest, taxes and insurance (PITI)?	Y/N
	exclude all legal and administrative costs?	Y/N

Continued on next page

4. Loss Mitigation Checklist, Continued

c. Sample Loss Mitigation Checklist (continued)

D. PRE-FORECLOSURE SALE		
20. Will the loan be at least 30 days delinquent when the PFS closes? (If yes, state the number of days)		Y/N ___ day s
21. Does an appraisal completed within the past 6 months show that ...	the AS-IS value is less than the loan amount? <i>State value.</i>	Y/N \$ ___
	the property is worth at least 63% of the unpaid principal balance? <i>State negative equity ratio.</i>	Y/N ___: ___
	sale proceeds will result in a loss of more than \$1,000?	Y/N
	the property is not seriously damaged?	Y/N
22. Has a title search been obtained indicating marketable title?		Y/N
23. Does the PFS agreement, executed by the borrower show ...	the end date for marketing? <i>State date.</i>	Y/N / /
	minimum acceptable net proceeds? <i>State amount.</i>	Y/N \$ ___
24. Do Net Sale Proceeds equal or exceed 82 percent of As-Is Value? (State percentage)		Y/N ___ %
25. Will the loan be at least 30 days delinquent when the special warranty deed is accepted?		Y/N
26. Was a recent appraisal or BPO conducted on the property? (State the AS IS property value)		Y/N \$ ___
27. If any portion of the property is rented, is there an approved occupied conveyance?		Y/N
28. Has a title search been obtained showing good and marketable title?		Y/N

Continued on next page

4. Loss Mitigation Checklist, Continued

c. Sample Loss Mitigation Checklist (continued)

D. PRE-FORECLOSURE SALE (Continued)		
29. Does a written DIL agreement, executed by the borrower ...	require the property to be vacant and free of personal property at conveyance?	Y/N
	convey clear title free of junior liens?	Y/N
	require the borrower to pay utility bills to the date of conveyance?	Y/N
	require the borrower to pay Homeowner's Association dues or other assessments?	Y/N
	advise the borrower to obtain the advice of a tax consultant?	Y/N

5. Document Requirements Matrix

Introduction This topic lists the documentation requirements from SFHGLP for different Loss Mitigation options.

Change Date January 9, 2007

a. SFHGLP Documentation Requirements Use the table below to identify the documentation requirements for different Loss Mitigation options depending on the different borrower situations.

If the documentation is required for a ...	And the borrower is ...	Submit ...
Special Forbearance (greater than 90 days delinquent)	employed in a private or public organization	<ul style="list-style-type: none"> • SFHGLP Servicing Plan • Letter from borrower outlining failure to pay/hardship • Current pay-stub • Credit Report, and • BPO.
	self employed	<ul style="list-style-type: none"> • Year-to-date profit and loss statement • Previous year's profit and loss statement, and • Previous year's signed tax return.
Loan Modification	employed in a private or public organization	<ul style="list-style-type: none"> • SFHGLP Servicing Plan • Letter from borrower outlining failure to pay/hardship • Current pay-stub • Credit Report • BPO, and • title report.
	self employed	<ul style="list-style-type: none"> • Year-to-date profit and loss statement • Previous year's profit and loss statement, and • Previous year's signed tax return.

Continued on next page

5. Document Requirements Matrix, Continued

a. SFHGLP Documentat-ion Requirements (continued)

If the documentation is required for a ...	And the borrower is ...	Submit ...
Pre-foreclosure Sale	employed in a private or public organization	<ul style="list-style-type: none"> • SFHGLP Servicing Plan • Letter from borrower outlining failure to pay/hardship • Current pay-stub • BPO/appraisal • Sales contract/HUD 1, and • Credit report.
	self employed	<ul style="list-style-type: none"> • Year-to-date profit and loss statement • Previous year’s profit and loss statement, and • Previous year’s signed tax return.
DIL	employed in a private or public organization	<ul style="list-style-type: none"> • SFHGLP Servicing Plan • Letter from borrower outlining failure to pay/hardship • BPO/appraisal • Prior Listing Agreement • Credit report, and • Title report.
	self employed	<ul style="list-style-type: none"> • Year-to-date profit and loss statement • Previous year’s profit and loss statement, and • Previous year’s signed tax return.

6. SFHGLP Contact List

Introduction This topic contains the contact information for various Single Family Housing Guaranteed Loan Program (SFHGLP) personnel.

Change Date January 9, 2007

Continued on next page

6. SFHGLP Contact List, Continued

Contact List (Pg. 1) The contact information for SFHGLP personnel is shown below.

Single Family Housing - Guaranteed Loan Program Servicing Contact Information



Committed to the future of rural communi

National Office

Washington DC

Centralized Servicing Center (CSC)

St. Louis

Please refer Guaranteed Loan Program questions regarding		
<ul style="list-style-type: none"> ✓ Servicing Regulations ✓ Policies and Procedures ✓ Administrative Notices ✓ Lender/Servicer Oversight and Monitoring 		
National Office Information		
Regular/Priority Mail	Single Family Housing Guaranteed Loan Division 1400 Independence Ave., SW – Mail Stop 0784 Washington, DC 20250	
Division Telephone Number	202-720-1452	
Fax Number	202-205-2476	
National Office Contacts		
Section Head	Telephone Number	E-mail Address
Debbie Terrell	918-534-3254	debra.terrell@wdc.usda.gov
Stuart Walden	202-690-4507	stuart.walden@wdc.usda.gov
Susanne Wilson	202-720-9705	susanne.wilson@wdc.usda.gov

Please send servicing transaction inquiries regarding		
<ul style="list-style-type: none"> ✓ Loss Mitigation Servicing Plans - CSC Fax Server ✓ REO Property Disposition Plans (PDP) - CSC E-mail ✓ Guaranteed Loss Claims Processing - CSC Priority Mail ✓ Future and Other Recoveries - CSC Fax Server 		
CSC Information		
Priority Mail	Centralized Servicing Center – USDA, Rural Development 1520 Market Street, FC-225 St. Louis, MO 63103	
E-Mail Address	guarantee.svc@stl.usda.gov	
Fax Server Phone Number	314-206-2873	
Toll Free Telephone Number	866-550-5887	
CSC Contacts		
Section Head	Telephone Number	E-mail Address
Tina Farlow	314-206-2650	tina.farlow@stl.usda.gov
Team 1		
Team Lead	Telephone Number	E-mail Address
Kevin Patterson	314-206-2397	kevin.patterson@stl.usda.gov
Servicing Transaction:	Toll Free Number	Team 1 – Extension (Ext)
Servicing Plan	866-550-5887	6700
REO PDP		6701
Loss Claims and Recovery		6701
Team 2 and 3		
Team Lead	Telephone Number	E-mail Address
William Wines	314-206-2194	william.wines@stl.usda.gov
Servicing Transaction:	Toll Free Number	Team 2 - Ext. Team 3 – Ext.
Servicing Plan	866-550-5887	6600 6800
REO PDP		6601 6801
Loss Claims and Recovery		6601 6801

Continued on next page

6. SFHGLP Contact List, Continued

Contact List
(Pg. 2)

SFH - Guaranteed Loan Program Servicing Contact Information (Continued)

**Deputy Chief
Financial
Officer
(DCFO)**

St. Louis

Websites

Please refer questions regarding		
<ul style="list-style-type: none"> ✓ Security Administration for RHS LINC (Lender Interactive Network Connection) ✓ Electronic Quarterly Status and Monthly Default Reporting (X12 or Web Reporting) ✓ User Agreement, Trading Partner Agreement and Addendum E for RHS LINC ✓ Setting up or requesting changes in Electronic Funds Transfer (EFT) ✓ Transfer of Servicing RD Form 1980-11 (servicing or holding tax ID/branch number) 		
DCFO Information		
Regular/Priority Mail	Guaranteed Loan Branch USDA, Rural Development ATTN: FC-350 P.O. Box 200011 St. Louis, MO 63120-0011	USDA – Rural Development 4300 Goodfellow Rd Bldg. 104 South End 2 nd Floor, Post 27d St. Louis, MO 63120
E-Mail Address	guaranteed_loan@stl.rural.usda.gov	
Fax Number	314-457-4279	
Toll Free Telephone Number	877-636-3789	
DCFO Contacts		
Tonia Lohman	Penny Nowak	Gladys Belger
Phone: 314-457-4196 E-Mail: tonia.lohman@stl.usda.gov	Phone: 314-457-4209 E-Mail: penny.nowak@stl.usda.gov	Phone: 314-457-4216 E-Mail: gladys.belger@stl.usda.gov

Rural Development Instructions (1980-D) and Administrative Notices (AN's)
http://www.rurdev.usda.gov/regs
USDA Electronic Data Interchange (EDI) Implementation Guide
https://usdalinc.sc.egov.usda.gov/ediguide2.pdf
USDA REO Properties
http://www.homesales.gov
USDA Income and Property Eligibility
http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do

7. Status of Mortgage Codes

Introduction This topic lists the standard codes that can be used in the Monthly Default Status Report.

Change Date January 9, 2007

a. Status of Mortgage Codes The table below lists the mortgage codes and their descriptions

 For information on using the Status of Mortgage Codes, see LMG 1.3.b.

Code	Description
9	Forbearance Status assigned during the temporary suspension of loan payments, granted at the discretion of the Servicer according to federal regulations.
11	Status assigned when Loss Claim filed.
12	Repayment
28	Modification
30	Third Party Sale
42	Delinquent
43	Foreclosure Started
44	Deed-in-Lieu Started
45	Foreclosure Completed
47	Deed-in-Lieu Completed
59	Chapter 12 Bankruptcy
65	Chapter 7 Bankruptcy
66	Chapter 11 Bankruptcy
67	Chapter 13 Bankruptcy
