U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

September 20, 2013 **MORTGAGEE LETTER 2013-32**

To **All Approved Mortgagees**

Subject **Update to FHA's Loss Mitigation Home Retention Options**

Purpose

This Mortgagee Letter supersedes Mortgagee Letter 2012-22, *Revisions to FHA's Loss Mitigation Options*, published on November 16, 2012. Also, this Mortgagee Letter addresses treatment of "continuous income" [1] from sources other than wages for mortgagors in need of loss mitigation assistance. This Mortgagee Letter is intended to help reduce the number of full claims against FHA's Mutual Mortgage Insurance Fund by assisting a greater number of distressed mortgagors in retaining their homes; thus, Mortgagee Letter 2012-22 will remain effect until servicers are able to fully implement this Mortgagee Letter.

Effective Date

Mortgagees must implement the policies set forth in this Mortgagee Letter no later than December 1, 2013.

Policy Updates

This Mortgagee Letter includes guidance on:

- Defining "continuous income," other than wages, for Loss Mitigation evaluations;
- Conditions required for a "Special Forbearance" to be used as a loss mitigation tool;
- Capitalization of arrearages for Modifications and Partial Claims;
- Working with mortgagors in bankruptcy;
- Defining "Market Rate" (introduced by Mortgagee Letter 2013-17); and
- *Frequently Asked Questions (FAQs)*, communicated in Attachment 1 of Mortgagee Letter 2013-03.

Background on FHA's Loss Mitigation Program

FHA's Loss Mitigation Program was established in 1996 to ensure that distressed FHA mortgagors were afforded opportunities to retain their homes and to assist in minimizing losses to FHA's Mutual Mortgage Insurance Fund.

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[1] Continuous income includes, but is not limited to, the following: employment income (e.g., wages, salary, or self-employment earnings), social security, disability, Veterans benefits, child support, survivor benefits, and/or pensions.

Changes to FHA's Existing Loss Mitigation Home Retention Options

The specific changes to FHA's existing Loss Mitigation options include the following:

- Eliminating the FHA-HAMP maximum Back End Debt-to-Income Ratio requirement of 55 percent;
- Eliminating the 12-month restriction on the amount of principal, interest, taxes and insurance (PITI) that may be included in an FHA-HAMP Partial Claim;
- Eliminating the FHA-HAMP eligibility requirement that the FHA-insured mortgage be no more than 12 full payments past due;
- Streamlining FHA's Loss Mitigation Home Retention Option priority order by replacing its current 4-tier incentive structure with a 3-tier incentive structure, consisting of Special Forbearances, Loan Modifications, and FHA-HAMP;
- Requiring the use of a "Special Forbearance" only in cases where the mortgagor(s) are unemployed;
- Permitting mortgagors to receive a Loan Modification or FHA-HAMP only once in a 24-month period;
- Expanding FHA-HAMP so that it now consists of a stand-alone Loan Modification, stand-alone Partial Claim, or a combination of a Loan Modification and Partial Claim;
- Permitting those mortgagors who were initially unsuccessful in completing Trial Payment Plans to re-apply for standard Loan Modifications or FHA-HAMP if their financial circumstances have changed since their initial application for assistance; and
- Defining "surplus income percentage" as surplus income divided by net income (i.e., net take-home income).

Updated Loss Mitigation Informal and Formal Forbearance Options

Before a mortgagee considers a delinquent mortgagor for one of FHA's Loss Mitigation Home Retention Options, the mortgagee must first evaluate the mortgagor for both Informal and Formal Forbearance Plans (See "Initial Assistance Screens" in Attachment A). Informal and Formal Forbearance Plans are the only options available for delinquent mortgagors without verifiable losses of income or increases in living expenses.

- Forbearance Plans are arrangements between a mortgagee and mortgagor that may allow for a period of reduced or suspended payments and may provide specific terms for repayment, depending on the circumstances.
- Informal Forbearance Plans are oral agreements relating to a period of three months or less. (See Mortgagee Letter 2000-05).
- Informal and Formal Forbearances are ineligible for loss mitigation incentive payments.
- Formal Forbearance plans are written agreements with a period of greater than three months but, not more than six months. If the mortgagee determines that 85 percent of the mortgagor's surplus income is sufficient to bring the mortgage current within six months, the only available loss mitigation option is a Formal Forbearance plan that provides for repayment within the six months. (See Example 1a in Attachment B).

Updated Loss Mitigation Home Retention Option Requirements

After evaluating a delinquent mortgagor for Informal and Formal Forbearance Plans, FHA's Loss Mitigation Home Retention Options must be considered in the following order: (1) Special Forbearances; (2) Loan Modifications; and (3) FHA-HAMP. The revised qualifications for FHA's Loss Mitigation Home Retention Options are reflected in Attachment A. Before four full monthly installments due on the mortgage are unpaid, the mortgagee must evaluate a mortgagor's financial situation on a monthly basis to determine the appropriate Loss Mitigation option when the mortgage is in default or imminent default. The mortgagee's servicing records should include monthly notations, explaining the mortgagee's analysis used to determine the appropriate Loss Mitigation option. If there has been no change in the mortgagor's circumstances, the mortgagee may simply notate this in its records.

Special Forbearances: A Special Forbearance is a written agreement between a mortgagee and mortgagor to reduce and/or suspend mortgage payments. A Special Forbearance is available only to mortgagors who are unemployed. Special Forbearance agreements must provide for a minimum of 12 months for re-employment and require subsequent evaluation for a more permanent Loss Mitigation option to cure the default. The delinquency amount can never exceed 12 months PITI during the Special Forbearance. (Note: The terms of a Special Forbearance agreement will not provide for reinstatement because mortgagees must re-evaluate mortgagors for more permanent Loss Mitigation options to cure a default). Please see Attachment B, *FHA Loss Mitigation Home Retention Option Priority Order;* Example 1(b).

Special Forbearance agreements, used as a result of the mortgagor(s) being unemployed, are also referred to as "Type I Special Forbearances" and are the only forbearance agreements for which mortgagees may collect incentive payments. Please note that Type II Special Forbearances have been eliminated.

For cases in which the mortgagor is still employed or where 85 percent of the mortgagor's surplus income is sufficient to cure the arrearage within six months, the mortgagee must offer the mortgagor a Formal or Informal Forbearance Agreement.

Special Forbearances are not available until three monthly mortgage payments are due and unpaid. Thus, even if Step 2 in Attachment A results in a mortgagor qualifying for a Special Forbearance, the mortgagee must wait to effectuate the Special Forbearance until three monthly mortgage payments are due and unpaid.

Loan Modifications: A Loan Modification is a permanent change to one or more of the terms of a mortgagor's loan. A Loan Modification allows the loan to be reinstated and results in a more affordable payment. Loan Modifications may include a change in the interest rate; capitalization of delinquent principal, interest or escrow items; extension of the mortgage term and/or re-amortization of the balance due. In order to qualify for a Loan Modification, a defaulting mortgagor must meet all of the following criteria:

- The household or mortgagor(s) has experienced a verifiable loss of income or increase in living expenses;
- One or more mortgagors receives "continuous income" in the form of employment income (*e.g., wages, salary, or self-employment earnings*), social security, disability, Veterans benefits, child support, survivor benefits, and/or pensions;
- The mortgagor's surplus income is at least $300 and is at least 15 percent of his/her net monthly income;
- 85 percent of the mortgagor's surplus income is insufficient to cure arrearages within six months;
- The mortgagor's monthly PITI mortgage payment can be reduced by the greater of 10 percent of the original monthly mortgage payment amount and $100, using the Market Rate[2] and amortizing the new loan over 30 years (See Attachment B, Example 2);
- The mortgagor has successfully completed a 3-month Trial Payment Plan based on the reduced mortgage payment amount *or* a 4-month Trial Payment Plan in cases of imminent default; and
- The mortgagor has not received a Loan Modification or FHA-HAMP in the previous 24 month period.

FHA-HAMP: FHA-HAMP typically involves the combination of a Loan Modification and a Partial Claim. However, FHA-HAMP may now involve the use of one or both of those Loss Mitigation options. As part of FHA-HAMP, a Partial Claim may include an amount needed to cover arrears in loan payments, legal fees and costs associated with a cancelled foreclosure, and potentially any additional amount for principal deferment. See Attachments A and B for guidance on calculating the amount of principal deferment.

A mortgagee may use an FHA-HAMP stand-alone Partial Claim, without an accompanying Loan Modification, provided the following three conditions are met: (i) the mortgagor's current interest rate is at or below Market Rate; (ii) the mortgagor's current mortgage payment is at or below the target monthly payment (referenced in Attachment A); and (iii) the mortgagor otherwise qualifies for FHA-HAMP as described below.

[2] Pursuant to Mortgagee Letter 2013-17, "Market Rate" is defined as a rate that is no more than 25 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30 year fixed-rate conforming mortgages (US average), rounded to the nearest one-eighth of one percent (0.125%), as of the date a Trial Payment Plan is offered to a borrower. The Weekly Primary Mortgage Market Survey results are published on the Freddie Mac website at http://www.freddiemac.com/pmms/, and the Federal Reserve Board includes the average 30 year survey rate in the list of Selected Interest Rates published weekly in its Statistical Release H.15 at http://www.federalreserve.gov/releases/h15/.

In addition, mortgagees may use an FHA-HAMP stand-alone Loan Modification without an accompanying Partial Claim if: (i) an affordable mortgage payment at or below the targeted payment can be achieved by re-amortizing the mortgage for 360 months at or below Market Rate; and (ii) the mortgagor qualifies for FHA-HAMP.

In order to qualify for FHA-HAMP, a defaulted mortgagor or a mortgagor facing imminent default must meet all of the following criteria:

- The household or mortgagor(s) has experienced a verifiable loss of income or increase in living expenses;
- One or more mortgagors receives continuous income in the form of employment income (*e.g., wages, salary, or self-employment earnings*), social security, disability, Veterans benefits, child support, survivor benefits, and/or pensions;
- The mortgagor's surplus income is less than $300 and/or less than 15 percent of his/her net monthly income;
- The mortgagor has not received a stand-alone Loan Modification or FHA-HAMP in the previous 24 months;
- The mortgagor meets all applicable eligibility criteria set forth in Mortgagee Letters 2009-23 and 2010-04, which do not conflict with this Mortgagee Letter's guidance;
- The mortgagor has successfully completed a 3-month Trial Payment Plan based on the reduced mortgage payment amount *or* a 4-month Trial Payment Plan in cases of imminent default; and
- The mortgagor(s) of record must provide a signed Hardship Affidavit.

Updated FHA-HAMP Partial Claim Amount Calculation

The maximum value of all outstanding Partial Claims for a given loan cannot exceed 30 percent of the outstanding Unpaid Principal Balance (UPB) as of the date of the default.

To calculate the maximum Partial Claim amount available under FHA-HAMP, first calculate the sum of:

(i) Arrearages*;
(ii) Legal fees and foreclosure costs related to a canceled foreclosure action; and
(iii) Principal deferment.

Compare the resulting sum to 30 percent of the outstanding UPB of the loan. The amount of the Partial Claim must be the lesser of (1) the sum calculated above, or (2) 30 percent of the outstanding UPB of the loan. If there are existing Partial Claim amounts associated with the mortgage loan, then the maximum eligible amount for FHA-HAMP is 30 percent of the UPB less all existing Partial Claim amounts. For sample calculations of the allowable Partial Claim under FHA-HAMP, see Attachment B, Examples 3(a) and 3(b).

*The total arrearage amount used in calculating the FHA-HAMP Partial Claim amount is not limited to 12 months PITI.

Determining Continuous Income for loss mitigation Evaluations

The term "Continuous Income" refers to income received by the mortgagor that is reasonably likely to continue from the date of the mortgagee's loss mitigation evaluation through at least the next 12 months.

In determining the amount of "Continuous Income" available to a mortgagor, the mortgagee must review the mortgagor's sources of income (*i.e., net and gross*) and expenses, and calculate the mortgagor's surplus/deficit income or gross income necessary for applicable Loss Mitigation Home Retention Options.

Capitalization of Arrearages for Modifications and Partial Claims

Arrearages for unpaid accrued interest, servicer advances for escrowed items, and related foreclosure costs (*e.g., foreclosure attorney fees*) can be included in a Loan Modification or FHA-HAMP Partial Claim. Outstanding arrearages capitalized into modifications are not subject to the statutory limit[3] on Partial Claims. However, arrearages and related foreclosure costs included in Partial Claims are subject to the statutory limit of 30 percent of UPB at the time of initial default.

When reviewing a mortgagor for FHA Loss Mitigation Options, a streamlined or refinanced loan (*i.e., on the same property and by the same mortgagors)* is not considered a "new" loan for seasoning requirements.

Mortgagors with Bankruptcy Cases

Mortgagors with an active Chapter 7 or Chapter 13 bankruptcy case are eligible for FHA Loss Mitigation Options to the extent that such Loss Mitigation does not violate federal bankruptcy law or orders of the Bankruptcy Court or Bankruptcy Trustee.

In addition, mortgagors who have received a Chapter 7 bankruptcy discharge and failed to reaffirm the FHA-insured mortgage debt under applicable law are eligible to be considered for Loss Mitigation Options.

Loss Mitigation Assistance for Mortgagors Failing under Trial Payment Plans

If a mortgagor fails to successfully complete a Trial Payment Plan under a Loan Modification or FHA-HAMP, pursuant to 24 C.F.R. § 203.355, mortgagees must still re-evaluate the mortgagor's eligibility for other appropriate Loss Mitigation Options. If the mortgagor's circumstances have not changed, the mortgagee must evaluate the mortgagor for FHA Loss Mitigation Home Disposition Options prior to initiating foreclosure.

[3] The statutory limit on Partial Claims stipulates that the maximum value of all outstanding Partial Claims for a given loan cannot exceed 30 percent of the UPB at the time of default.

If the cause of default is incurable (*i.e., the mortgagor has no realistic opportunity of replacing his/her lost income or reducing his/her expenses enough to meet the mortgage obligation*), Home Disposition Options are readily available for use upon default. See Mortgagee Letter 2000-05 and subsequent guidance for further information on Loss Mitigation Home Disposition Options. A mortgagor who did not succeed in completing a Trial Payment Plan is eligible to reapply for assistance and begin a second Trial Payment Plan only if his/her financial circumstances have changed since the last application for assistance.

Mortgagors must provide mortgagees with verifiable documentation supporting the change in their financial circumstances. Changes in employment must be verified by paystubs or by a Verification of Employment as described in HUD Handbook 4155.1, *Mortgage Credit Analysis for Mortgage Insurance on One-to-Four Unit Mortgage Loans.*

Surplus Income Percentage

The term "Surplus Income Percentage" is defined as surplus income divided by monthly net income (i.e., net take-home income). The Surplus Income Percentage is used in the mortgagee's financial analysis to determine which loss mitigation options are appropriate based on the mortgagor's income. See Mortgagee Letter 2000-05 for further guidance on the Surplus Income Percentage.

Information Collection Requirements

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Number 2502-0589. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

Questions

Any questions regarding this Mortgagee Letter may be directed to the HUD National Servicing Center at (877) 622-8525. Persons with hearing or speech impairments may reach this number by calling the Federal Information Relay Service at (800) 877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers.

Signature

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Attachment A

FHA Loss Mitigation Home Retention Option Priority Order (Waterfall)

Initial Assistance Screens			
Step	Decision Point	Yes	No
1	Household or mortgagor(s) has experienced a verifiable loss of income or increase in living expenses?	Step 2	Informal or Formal forbearance/repayment plan.
2	One or more mortgagors receives continuous income in the form of employment income (*e.g., wages, salary, or self-employment earnings*), social security, disability, Veterans benefits, child support, survivor benefits, and/or pensions?	Step 3	Special Forbearance
3	Surplus income is at least $300 and greater than 15% of the mortgagor's net income?	Step 4	**FHA-HAMP** (Step 6)
4	85% of surplus income is sufficient to cure arrears within 6 months?	Formal forbearance/ repayment plan for 6 months.	**Modification** (Step 5)

Modification *(Requires Successful Completion of Trial Payment Plan)*			
Step	Decision Point	Yes	No
5	Modification would reduce monthly payment by at least the greater of 10% and $100?	• Modified interest rate must not exceed 25 bps above Freddie Mac average, rounded to the nearest 1/8th, at time trial payment plan is offered to mortgagor; • Term of modified loan must be 30 years.	**FHA-HAMP** (Step 6)

Step 6	**FHA-HAMP**[1] *(Requires Successful Completion of Trial Payment Plan)*

- Use of FHA-HAMP is to both alleviate the burden of immediate repayment of arrears and to adjust monthly payments to a level sustainable by the household with current income. FHA-HAMP permits combining a Partial Claim and a Loan Modification.
- Partial Claim: Total amount available is the lesser of: 1) 30% of the outstanding unpaid principal balance less any previous Partial Claims paid on this mortgage; and 2) the sum of:
    1. Arrearages;
    2. Legal fees and foreclosure costs related to a canceled foreclosure action; and
    3. Principal deferment (per below calculation).
- Modification
    1. Calculate the target monthly payment:
        - A. Calculate 31% of gross income.
        - B. Calculate 80% of current mortgage payment
        - C. Calculate 25% of gross income
        - D. Take the greater of B and C
        - E. Take the lesser of A and D
    2. Calculate monthly payment on current loan balance at the market interest rate (not including arrears) and 360 months term.
    3. If result of Step 2 is lower than result from Step 1E, then the mortgagor is eligible for a standard modification at the market interest rate and if necessary a Partial Claim for arrearages, legal fees, and foreclosure costs ONLY, but may not receive principal deferment; otherwise, go to Step 4.
    4. Calculate allowable principal deferment amount
        - A. Reduce loan balance used in Step 2 until calculated mortgage payment reaches target amount from Step 1 or else the maximum allowable principal deferment is reached per amount available as calculated above under Partial Claim.
        - B. If the final mortgage payment is greater than 40% of current income, and there is verifiable unemployment status, then the mortgagor is eligible for a reduced payment option under the Special Forbearance. If there is no verifiable unemployment status and the mortgagor has already been reviewed for retention options under the waterfall but, does not qualify for any (i.e., mortgagor does not have sufficient surplus income or other assets that could repay the indebtedness), then the mortgagor is eligible non-retention options.

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[1] A stand-alone Partial Claim is permissible under FHA-HAMP if the mortgagor's (i) current interest rate is at or below market rate and (ii) the mortgagor's current mortgage payment is at or below the targeted payment. In addition, a stand-alone modification is permissible under FHA-HAMP if a mortgage payment at or below the targeted payment can be achieved by re-amortizing the mortgage for 360 months at or below the market rate.

Notes and Definitions

Special Forbearance: A Special Forbearance is a written agreement between a mortgagee and a mortgagor which contains a plan to reinstate a loan that has been delinquent for at least 90 days and which provides the mortgagor with relief not typically afforded under an Informal Forbearance. While Special Forbearances have no maximum duration, at no time may the maximum arrearage due under a Special Forbearance exceed the equivalent of 12 months of PITI. A Special Forbearance is only available to mortgagors who are unemployed; therefore, it no longer requires a reinstatement/repayment as part of the plan. The mortgagor, being afforded a Special Forbearance, must be an owner-occupant committed to occupying the property as his/her primary residence during the term of the Special Forbearance agreement.

Market Interest Rate: Pursuant to Mortgagee Letter 2013-17, "Market Rate" is defined as a rate that is no more than 25 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30 year fixed-rate conforming mortgages (US average), rounded to the nearest one-eighth of one percent (0.125%), as of the date a Trial Payment Plan is offered to a borrower. The Weekly Primary Mortgage Market Survey results are published on Freddie Mac's website at http://www.freddiemac.com/pmms/, and the Federal Reserve Board includes the average 30-year survey rate in the list of Selected Interest Rates published weekly in its Statistical Release H.15 at http://www.federalreserve.gov/releases/h15/.

FHA Loss Mitigation Home Retention Option Prior Order (Waterfall): Examples

Example 1(a) – Formal forbearance for 6 months

Mr. and Mrs. Carlson have fallen two months behind on their mortgage. Mr. Carlson is unemployed, but Mrs. Carlson is employed and has monthly net take-home income of $3,000. Their monthly mortgage payment (PITI) is $900, and other monthly expenses total $1,500. Therefore, the Carlsons have monthly surplus income of $600 ($3,000 - $900 - $1,500), which is 20 percent ($600/$3,000) of their net monthly income. Their arrearages total $1,800 (2 months X $900). Using 85 percent of their monthly surplus income (.85 X $600), the Carlsons would be able to cure their arrearages within four months ($1,800/$510 = 3.5). The Carlsons are therefore eligible only for a formal forbearance for six months, because their surplus income exceeds 15 percent of their net monthly income and 85 percent of their surplus income is sufficient to cure their default within six months.

Example 1(b) – Special Forbearance

Mr. Madison has fallen four months behind on his mortgage. Mr. Madison is unemployed and receives an unemployment check of $250. There are no members of his household that are employed and contributing towards the mortgage payment. Therefore, Mr. Madison is eligible only for a Special Forbearance for 12 months. Once Mr. Madison becomes employed, the mortgagee should re-evaluate Mr. Madison for appropriate Loss Mitigation options to cure his default.

Example 2 – Loan Modification

Ms. Kim, who is employed and has a monthly net income of $4,000, has fallen three months behind on her mortgage. Ms. Kim has a loss of income that has been verified. Her monthly mortgage payment (PITI) is $1,450 and her other monthly expenses total $1800. Therefore, Ms. Kim has monthly surplus income of $750 ($4,000 - $1450 - $1800), which is 18.75 percent ($750/$4,000) of her net monthly income. Her arrearages total $4,350 ($1,450 X 3). Using 85 percent of her surplus income (.85 X $750), Ms. Kim would be able to cure her arrearages within 7 months ($4,350/$637.50=6.8).

Ms. Kim is not eligible for formal forbearance because 85 percent of her surplus income will not allow her to cure her default within six months. However, she is eligible for a Loan Modification, because her surplus income exceeds 15 percent of her net monthly income. After successfully completing a trial payment plan, when her modified loan is amortized for 30 years at the Freddie Mac weekly average rounded to the nearest 1/8, Ms. Kim’s new PITI mortgage payment would be $1,250, so her original mortgage payment was reduced by at least 10%.

Example 3(a) – FHA-HAMP

Mr. Hernandez, who is employed, has gross monthly income of $2,500 and net monthly income of $2,000. He has fallen two months behind on his mortgage and his loss of income is verifiable. His monthly mortgage payment (PITI) is $1,000, and his other monthly expenses total $800. Therefore, Mr. Hernandez has surplus income of $200 ($2,000 - $1,000 - $800), which is ten percent ($200/$2,000) of his net monthly income. His arrearages total $2,000 ($1,000 X 2). Using 85 percent of his surplus income (.85 X $200), Mr. Hernandez would be able to cure his arrearages in 12 months ($2,000/$170=11.8). Mr. Hernandez is ineligible for formal forbearance because 85 percent of his surplus income is insufficient to cure his arrearages within six months. He is also ineligible for a stand-alone Loan Modification, because his surplus income is less than 15 percent of his net monthly income.

Although Mr. Hernandez does not qualify a Special Forbearance or a Loan Modification due to his employment and inability to cure arrears within six months, he is eligible for FHA-HAMP. His gross monthly income is $2,500 and his current monthly mortgage payment is $1,000. To calculate his targeted new monthly PITI payment, follow these steps:

A. Calculate payment at 31 percent of gross monthly income: .31 X $2,500 = $775
B. Calculate payment at 80 percent of current mortgage payment: .8 X $1000 = $800
C. Calculate payment at 25 percent of gross monthly income: .25 X $2,500 = $625
D. Take the greater of B or C: $800
E. New payment is lesser of A or D: $775
F. Increase E, if necessary, until it results in a Partial Claim equal to 30 percent of the unpaid principal balance at the time of default.

Step	New Payment	Payment Reduction	New Front-End DTI
A	$775	22.5%	31%
B	$800	20%	32%
C	$625	37.5%	25%
D	$800	20%	32%
E	$775	22.5%	31%

The targeted payment is $775, subject to the Partial Claim limit of 30 percent of the unpaid principal balance at the time of default.

Example 3(b) – FHA-HAMP

Ms. Jones, who is employed, has a gross monthly income of $3,000 and a net monthly income of $2,500. She has fallen two months behind on her mortgage. Ms. Jones' loss of income is verifiable. Her monthly mortgage payment (PITI) is $1,000, and her other monthly expenses total $1,400. Therefore, Ms. Jones has a monthly surplus income of $100 ($2,500- $1,000 - $1,400), which is four percent ($100/$2,500) of her net monthly income. Her arrearages total $2,000 ($1,000 X 2). Using 85 percent of her surplus income (.85 X $100), Ms. Jones would be able to cure her arrearages in 24 months ($2,000/$85=23.5). Ms. Jones is ineligible for a formal forbearance because 85 percent of her surplus income is insufficient to cure her arrearages within six months. She is also ineligible for a Loan Modification, because her surplus income is less than 15 percent of her net monthly income.

However, because Ms. Jones is employed and her surplus income is less than $300 and less than 15 percent of her net monthly income, Ms. Jones is eligible for FHA-HAMP. Her gross monthly income is $3,000 and her current monthly mortgage payment is $1,000. To calculate her targeted new monthly PITI payment, follow these steps:

A. Calculate payment at 31 percent of gross monthly income: .31 X $3,000 = $930
B. Calculate payment at 80 percent of current mortgage payment: .8 X $1,000 = $800
C. Calculate payment at 25 percent gross monthly income: .25 X $3,000 = $750
D. Take the greater of B or C: $800
E. New payment is lesser of A or D: $800
G. Increase E, if necessary, until it results in a Partial Claim equal to 30 percent of the unpaid principal balance at the time of default.

Step	New Payment	Payment Reduction	New Front-End DTI
A	$930	7%	31%
B	$800	20%	~26.7%
C	$750	25%	25%
D	$800	20%	~26.7%
E	$800	20%	~26.7%

The targeted payment is $800, subject to the Partial Claim limit of 30 percent of the unpaid principal balance at the time of default.