COVID-19
LOSS MITIGATION STORIES

OFFICE *of*
INSPECTOR GENERAL
UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

These 12 stories reflect the proportional positive and negative results noted in our audit of COVID-19 loss mitigation efforts.

Proper Loss Mitigation Followed

The borrower called his servicer about a week before his **COVID-19 forbearance** ended to discuss his loss mitigation options and deal with 19 delinquent payments. He said he had become unemployed due to COVID and spent the last year seeking new employment before starting work again within the past few weeks. He confirmed that he would be able to resume making monthly payments beginning within 2 months. He was offered a **COVID-19 recovery standalone partial claim**, which he signed in the presence of a notary set up by the servicer. The partial claim funds were applied to the borrower's loan account within 3 weeks of his initial outreach, reinstating the loan.

Stock photo; not actual borrower.

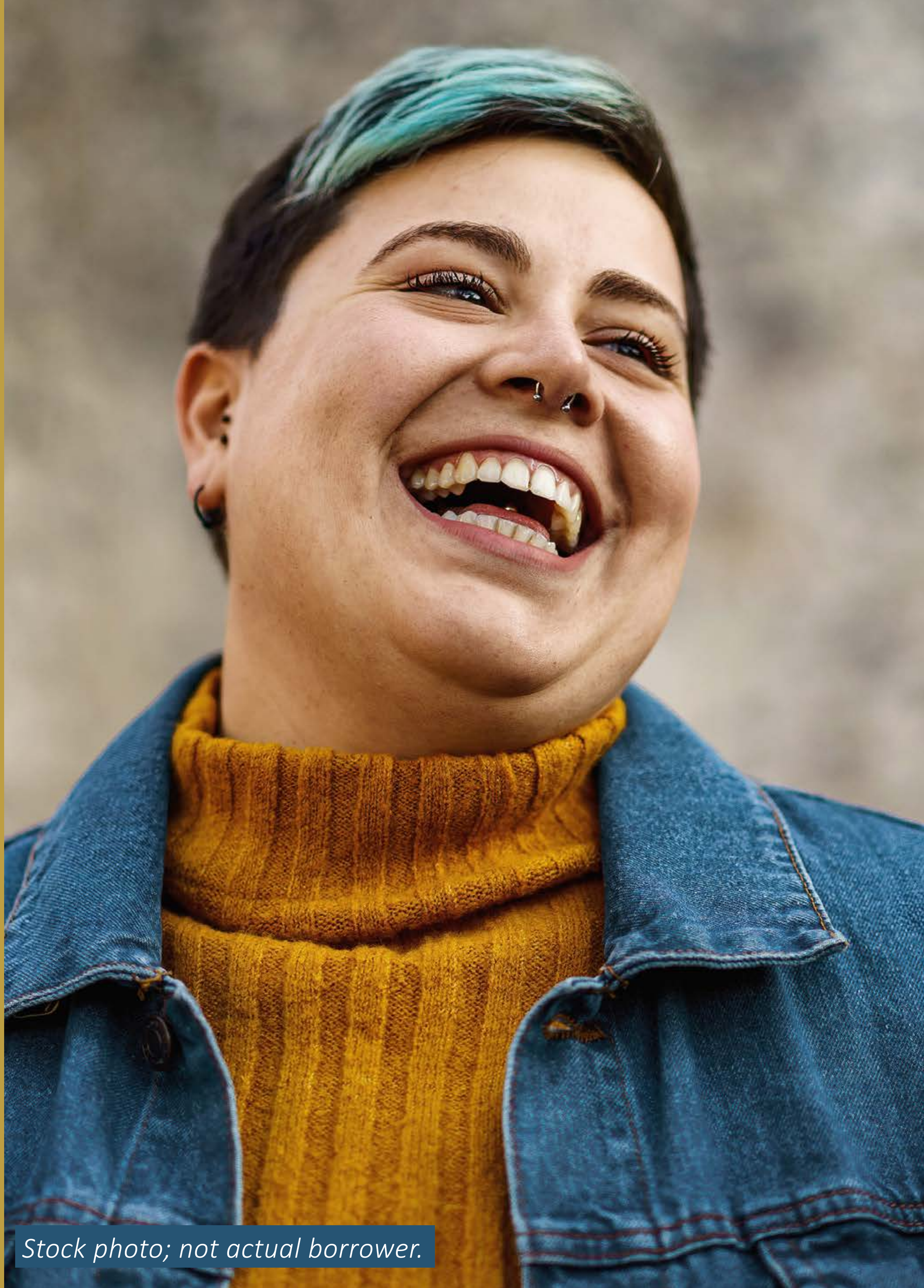
Proper Loss Mitigation Followed

After being on **COVID-19 forbearance** for 18 months, the borrower requested to be reviewed for **loss mitigation** assistance due to the expiration of the forbearance plan. The servicer determined the borrower could resume payments and properly offered the **COVID-19 recovery standalone partial claim**. With the partial claim, the servicer was able to place the delinquent payments, totaling $33,767, into a no-interest loan to be paid at the end of the mortgage. The borrower's mortgage was fully reinstated.

Stock photo; not actual borrower.

Proper Loss Mitigation Followed

Upon the borrowers' request for **loss mitigation** near the end of their **COVID-19 forbearance**, the servicer provided the loss mitigation options and asked qualifying questions to determine which option best described their situation. The borrowers indicated they could not afford their regular payment but may be able to afford a reduced payment. The servicer approved the borrowers for the **COVID-19 recovery modification** and placed $61,472 of past-due payments into a no-interest loan to be paid at the end of the mortgage. The servicer then modified the mortgage, lowering the interest rate by 0.75 percent. The loan modification was completed, and the loan was brought current. The borrower was also informed of the **Homeowner Assistance Fund** during loss mitigation.



Stock photo; not actual borrower.

Proper Loss Mitigation Followed

The servicer evaluated this borrower for the **COVID-19 advance loan modification** (ALM) the month **COVID-19 forbearance** ended and found that he qualified. The servicer offered the borrower an ALM, capitalizing the total amount due of $4,113 and reducing the interest rate from 4 percent to 3 percent. The borrower accepted the offer and returned the signed and notarized documents. The loan modification was completed, and the borrower's account was brought current.

Stock photo; not actual borrower.

Incorrect Loss Mitigation

Improper Option. Upon ending **COVID-19 forbearance**, the servicer sent this borrower a letter with a conditional offer for a **COVID-19 recovery standalone partial claim**, but the letter did not include enough information for the borrower to decide whether she was eligible and what information was required from her. The borrower called the servicer by the date listed on the letter, but she was not reviewed for a **COVID-19 recovery modification** and instead instructed to apply online for loss mitigation. The borrower wanted to apply for a loan modification due to her loss of income and other financial support. She called and tried to provide paperwork several times for standard loss mitigation over 3 months and documents were missing each time. The servicer started foreclosure after the borrower's standard loss mitigation was closed. The borrower called the servicer, not wanting to lose her house; however, an internet search shows she sold her home a month after foreclosure was started. The borrower did not receive proper **loss mitigation** options and had to go through many unnecessary steps before finally paying off her loan.

Stock photo; not actual borrower.

Incorrect Loss Mitigation

Improper Option. Upon exiting **COVID-19 forbearance**, the borrower was not reviewed for a **COVID-19 advance loan modification** or other **COVID-19 recovery options**, as required by FHA guidelines. The servicer offered the borrower a standard **loss mitigation** which required documentation and monthly trial payments. The servicer charged the borrower a trial payment of $560 twice in the same month, resulting in an insufficient fund reversal and the loss mitigation being denied. The borrower sold his house after his loss mitigation was denied for failing to make a trial payment. Moreover, the COVID-19 recovery options did not require a trial payment plan and the borrower's recovery option could have been finalized by then. This borrower (disabled with two sisters living with him) may have been able to save his home if he had been offered the appropriate loss mitigation assistance.

Stock photo; not actual borrower.

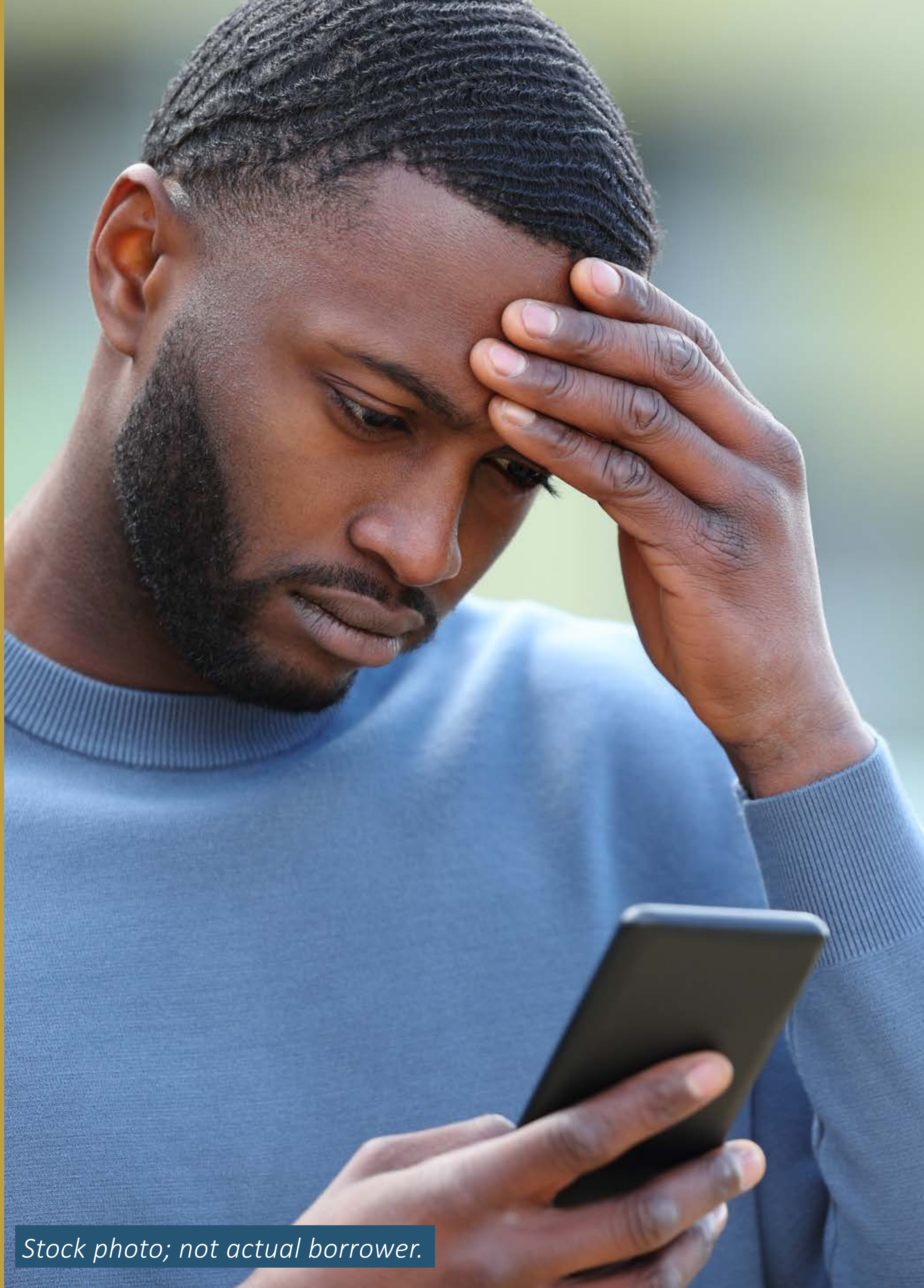
Incorrect Loss Mitigation

Miscalculated Funds. A borrower requested **loss mitigation** assistance because his **COVID-19 forbearance** was ending and was approved for a **COVID-19 recovery modification**. However, the servicer incorrectly calculated the amount of money owed and underfunded the escrow account by over $6,000. The borrower’s account was not reinstated after loss mitigation because the escrow account was not properly funded. Several months after the modification, the borrower’s monthly mortgage payment increased by $533 a month. The servicer noted that there was a system issue that caused the error in escrow calculations.

Stock photo; not actual borrower.

Servicer did not Follow HUD's Guidance

A borrower requested **loss mitigation** assistance after his **COVID-19 forbearance** ended, though it was delayed because the servicer had an incorrect address and did not update it timely. Instead of mailing documents to the property address, the servicer used an address unrelated to the borrower. In addition, the servicer did not evaluate the borrower for a **COVID-19 advance loan modification** after the borrower's forbearance ended and did not inform the borrower about the **Homeowner Assistance Fund**. Not updating the borrower's correct mailing address resulted in the loss mitigation option not being completed within 120 days as required. The borrower made many calls to the servicer during this time trying to find out when he would receive documents. Due to the servicer's error, when the servicer redid the documents and mailed them to the correct address, the borrower ended up with a higher interest rate of 3.75 percent rather than the 2.875 percent originally offered verbally and in writing, on the documents sent to the wrong address. This resulted in higher monthly payments.



Stock photo; not actual borrower.

Incorrect Loss Mitigation

Miscalculated; Not Following Guidance. A borrower who was coming off **COVID-19 forbearance** requested **loss mitigation** assistance. The family's income was resuming and while they were able to make payments, they needed a **COVID-19 recovery standalone partial claim** to catch up the past due payments. Servicer system errors delayed the preparation and mailing of the partial claim documents resulting in the due date passing 12 days after the documents were sent. The borrower then received a letter that she was no longer qualified. She called in asking to be reevaluated but due to an issue with the servicer's system, she was improperly told that she did not qualify for the same option. The borrower called the servicer weekly trying to resolve the issues explaining that she had seven children and needed assistance to save her house. During this time, the servicer started the foreclosure process. When the borrower called, she was told to reapply and provide financial information which is not required under COVID-19 loss mitigation. The borrower was eventually approved for the partial claim again, but it included $3,299 in foreclosure costs from when the servicer improperly started foreclosure while the borrower should have been in loss mitigation. By including these costs in the partial claim, the borrower was expected to pay for the servicer's error.

Stock photo; not actual borrower.

Incorrect Loss Mitigation

Improper Option. A borrower requested **loss mitigation** assistance after his **COVID-19 forbearance** ended. The servicer approved the borrower for the proper loss mitigation option. The servicer mailed the modification documents and scheduled a notary. The borrower met with the notary to sign the documents and began making modified payments. However, the documents the servicer received were not notarized. Over the next several months, the servicer and borrower exchanged many phone calls and mailings. At one point, the servicer told the borrower the loss mitigation was denied due to aging out and he needed to submit a new borrower response packet (unnecessary for COVID-19 loss mitigation). On one set of documents, there were three different loan numbers, and the documents were for different people. The borrower filled out documents several different times, placed many calls, provided unnecessary documents, and loss mitigation was still not completed as of the time of OIG's file review. The borrower did not receive proper loss mitigation.

Stock photo; not actual borrower.

Incorrect Loss Mitigation

Improper Option. A borrower at the end of her **COVID-19 forbearance** requested a **COVID-19 recovery standalone partial claim** option because she was able to resume her monthly mortgage payment. The borrower also stated she had $7,000 to put towards her missed payments. However, the servicer approved the borrower for a different option, the **COVID-19 recovery modification**, indicating that the borrower could not resume her monthly mortgage payment. The servicer indicated that the borrower was not eligible for the partial claim option claiming that the borrower rejected it, but the borrower did not. After several failed attempts to get a partial claim, the borrower decided to pursue a repayment plan to catch up on payments. The loan remained delinquent at the end of our audit period. The borrower did not receive proper **loss mitigation**.

Stock photo; not actual borrower.

Incorrect Loss Mitigation

Miscalculated; Not Following Guidance. A borrower called the servicer to be evaluated for loss mitigation options in the month her COVID-19 **forbearance** was ending. The borrower was not evaluated for a **COVID-19 advance loan modification** as required but was instead evaluated and approved for a **COVID-19 recovery modification** 3 months later. The borrower called the servicer 17 times trying to get updates on her loss mitigation. Ultimately, the loan modification amounts owed were inaccurately calculated, resulting in the escrow account being underfunded by almost $5,000 and not fully reinstated. As a result, the borrower will be required to fund the escrow shortfall in future increased mortgage payments.

Stock photo; not actual borrower.

Definitions

Loss mitigation is the process in which a mortgage lender or servicer offers relief or repayment options to a borrower struggling to keep up with loan payments and avoid foreclosure.

Forbearance refers to the temporary postponement of loan payments. Lenders grant forbearance as an alternative to taking further loss mitigation steps or ultimately advancing a property into foreclosure. COVID-19 forbearance provides borrowers who experience an adverse impact on their ability to make on-time mortgage payments due to the COVID-19 pandemic with a forbearance period, requiring none of the normally required supporting documentation from borrowers other than a borrower request.

The **Homeowner Assistance Fund (HAF)**, from the U.S. Department of the Treasury, provides financial assistance to eligible homeowners who have suffered financial hardships during the COVID-19 National Emergency. Qualified expenses may include mortgage payment assistance, mortgage reinstatement, utilities, insurance, and other housing-related costs. Servicers must inform borrowers suffering financial distress that these additional resources may be available through their state. As permitted by the jurisdiction's HAF program, HAF funds may be used in connection with the borrower's FHA-insured mortgage or any partial claim mortgage in a manner consistent with the respective mortgage documents and FHA requirements.

COVID-19 advance loan modification (ALM) is a permanent change in one or more terms of a borrower's mortgage that achieves a minimum 25 percent reduction to the borrower's monthly principal and interest payment that does not require borrower contact.

The **COVID-19 recovery loss mitigation options (COVID-19 recovery options)** provide borrowers impacted, directly or indirectly, by COVID-19 with options to bring their mortgage current and may reduce the principal and interest portion of their monthly mortgage payment to reduce the risk of re-default and assist in the broader COVID-19 recovery. These options were introduced in Mortgagee Letter 2021-18.

A **COVID-19 recovery standalone partial claim** is a zero-interest loan due at the end of a borrower's existing loan covering the amounts need to bring the loan current. This option is available for borrowers who affirm they can resume their existing monthly mortgage payment.

A **COVID-19 recovery modification** involves updating the interest rate, extending the term of the loan, and adding missed payments to the loan balance to make payments more affordable. It also must include a partial claim, if available.