

USDA 2021 Conditional Commitment and FHA Forbearance

Purpose

This announcement includes the following topic:

- ✓ USDA Commitment Authority
 - ✓ FHA Forbearance
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USDA Commitment Authority

USDA has issued notice that they will begin issuing Conditional Commitments with language “... subject to the availability of commitment authority.” *As happens at the beginning of each fiscal year, funding for the Single-Family Housing Guaranteed Loan Program (SFHGLP) will not be available for a short period of time at the beginning of Fiscal Year 2021 (FY2021), which starts October 1, 2020. During the temporary lapse of funding, Rural Development will issue Conditional Commitments “subject to the availability of commitment authority” for purchase and refinance transactions. An upfront guarantee fee of 1 percent accompanied by an annual fee of .35 percent will apply to both purchase and refinanced transactions in FY 2021.*

- ✓ When funds become available, Rural Development will “Obligate” funds for Conditional Commitment issued for loans subject to the availability of commitment authority;
 - ✓ Once loans are obligated, Rural Development will process lender’s Loan Note Guarantee (LNG) request as soon as the loans are verified as being closed and all conditions of the Conditional Commitment are satisfied;
 - ✓ Lenders assume all loss default risk for the loan until Rural Development is able to fund it and the Loan Note Guarantee is issued.
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USDA 2021 Conditional Commitment and FHA Forbearance, Continued

USDA Commitment Authority, *continued*

FSM Process:

- ✓ FSM will continue to close loans with a Conditional Commitment subject to availability of funds;
 - ✓ **HOWEVER**, the loan may need additional documentation to ensure Guarantee post-closing **and** no adverse changes to the Borrower's financial condition since the date the commitment was issued by USDA can occur or the loan is subject to repurchase by Originator.
 - **Important Note:** The LNG is subject to Congressional funding of the USDA Program.
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FHA Forbearance

FHA published [Mortgagee Letter 2020-30](#) providing guidance regarding borrowers in mortgage payment forbearance. *Although FSM is implementing immediately, the guidelines are effective for Case Numbers assigned on or after November 9, 2020.*

To be noted: the following policies updated in the Mortgagee Letter supersede the requirements of the FHA Handbook 4000.1 where the information is conflicting.

Generally, a borrower who was granted Mortgage Payment Forbearance is eligible for a new FHA insured mortgage if:

- The borrower continued to make regularly scheduled payments and the forbearance plan is terminated;
 - **For Cash out refi:** the borrower has completed the Forbearance Plan and made at least 12 consecutive monthly payments post forbearance;
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USDA 2021 Conditional Commitment and FHA Forbearance, Continued

FHA Forbearance, continued

- **For Purchase and No Cash out refi:** the borrower has completed the Forbearance Plan and made at least 3 consecutive monthly payments post forbearance; or
- **For Credit Qualifying Streamline refi:** the borrower has completed the Forbearance Plan and made less than 3 consecutive monthly payments post forbearance;
- **All Streamline refinances:** the borrower has made at least 6 payments on the FHA-insured mortgage being refinanced (where the FHA insured mortgage has been modified after forbearance, the borrower must have made at least 6 payments under Modification)

In addition, FHA SFH Handbook 4000.1 will be updated as follows:

Definition

Housing Obligation/Mortgage payment refers to the monthly payment due for rental or Properties owned.

A Mortgage Payment is considered delinquent if not paid within the month due.

A Borrower who was granted a Mortgage Payment Forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing.

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USDA 2021 Conditional Commitment and FHA Forbearance, Continued

**FHA
Forbearance,**
continued

Standard

Late Mortgage Payments for Purchase and Not Cash-Out Refinance

The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the 12 months prior to case number assignment reflects:

- Three or more late payments of greater than 30 days;
- One or more late payments of 60 days plus one or more 30-day late payments;
- One payment greater than 90 days late, or
- That the borrower has made less than 3 consecutive payments since completion of a mortgage forbearance plan.

For both Purchase and No Cash-Out Refinance transactions, a Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. In addition, where a mortgage has been modified, the Borrower must have made at least 6 payments under the modification agreement to be eligible for a No Cash-Out Refinance.

A mortgage that has been granted forbearance must utilize the payment history in accordance with the Forbearance Plan for the time period of forbearance in determining late housing payments. Where any mortgage in forbearance will remain open after the closing of the new FHA insured mortgage, the Forbearance Plan must be terminated at or prior to closing.

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USDA 2021 Conditional Commitment and FHA Forbearance, Continued

**FHA
Forbearance,**
continued

Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan is not considered to be delinquent for purposes of credit underwriting.

Required Documentation

Where a mortgage reflects payments under a Modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain:

- ✓ A copy of the Modification or Forbearance Plan, **and**
- ✓ Evidence of the payment amount and date of payments during the forbearance term.

A forbearance plan is not required if the forbearance was due to the impacts of COVID-19 National Emergency.

Effective Date As Noted within

Questions Retail – Please contact your Manager with any questions
Mod Corr – Please contact Brent Wilder, National Account Executive at bwilder@fsmloans.biz
