

Sample CD-Rom Contents: Agency Interpretation: Mortgagee Letter 96-65**U. S. Department of Housing and Urban Development**
Washington, D.C. 20410-8000

December 2, 1996

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

Mortgagee Letter 96-65

TO: ALL APPROVED MORTGAGEES

ATTENTION: Single Family Servicing Managers

SUBJECT: Procedural Changes for Single Family Servicing and Single Family Claims

The purpose of this Mortgagee Letter is to announce several substantive changes in the policy and procedures related to single family mortgage servicing and in the submission of claims for insurance benefits. The changes related to servicing policy are effective with the date of this letter as are the revised instructions related to the date of claims submission.

Also included in this Mortgagee Letter is a revision to HUD's policy regarding the interest curtailment that results from a mortgagee's failure to provide proper notification of the institution of foreclosure (24 CFR [203.356](#) and [24 CFR 203.402](#)).

This

all single family mortgages where the first public legal action to initiate foreclosure takes place on or after November 1, 1996.

Although it is not possible to issue immediate changes to existing policy and procedures regarding two other servicing issues, HUD has agreed with the industry that the Department's existing policies need to be revised in light of current technology and business needs. These issues, force-placed hazard insurance and the requirement of a face-to-face conference between mortgagees and defaulting mortgagors, will require regulatory revision. Therefore, these changes are being deferred pending action to be taken shortly on the applicable regulations.

1. REVISED NOTIFICATION OF FORECLOSURE REQUIREMENTS

HUD began enforcement of the foreclosure notification requirement (24 CFR [203.356](#)) effective with the reporting cycle ending October 31, 1992. This notification was accomplished when the mortgagee properly reported to HUD's Single Family Default Monitoring System (SFDMS) within two reporting cycles, that the first public legal action required to institute foreclosure ("Status B") had occurred. Once non-compliance was established, the Department had no option but to curtail interest on the claim to a date 30 days from the date of the foreclosure initiation.

Included in the Federal Register dated July 9, 1996, were amendments to 24 CFR 203.356 and [24 CFR 203.402\(k\)\(1\)](#), which provided the Secretary with authority to administratively set the date to which interest would be computed when the mortgagee failed to meet the foreclosure reporting requirement.

Mortgagees shall be considered to be in compliance with the reporting requirement of 24 CFR 203.356(a), when the case is properly reported to the SFDMS for the reporting cycle (or in the following reporting cycle) in which the first public legal action required to initiate foreclosure is taken. In accordance with Mortgagee Letter [96-49](#), dated September 9, 1996, the proper SFDMS status code for reporting the first public legal action required to initiate foreclosure will change from "B" to "68".

Effective for all loans where the first public legal action to initiate foreclosure takes place on or after November 1, 1996, and where there is a finding of non-compliance regarding the foreclosure reporting requirement 24 CFR 203.356(a), the following provisions apply:

- a. The calculation of interest will take into account the date the first public action to initiate foreclosure was taken and the reporting cycle in which the this action was properly reported.
- b. The mortgagee will be considered in non-compliance with this requirement until such time (the reporting cycle) as the mortgagee properly reports the foreclosure initiation.
- c. For each reporting cycle that the notification of foreclosure is delayed, the mortgagee's claim will be reduced by an amount equivalent to thirty days of interest. Where non-compliance with this requirement is established, the minimum interest reduction will be equal to 30 days of interest.
- d. Mortgagees shall continue to be responsible for "self-curtailement", where the reporting requirement was not met.
- e. Self-curtailement shall be accomplished by identification of the interest curtailment date on Form [HUD-27011](#), Item 31. Please refer to the appendix for further explanation and examples.

2. REQUIREMENTS FOR SUBMISSION OF FORM HUD-27011:

PART A - CONVEYANCES AND ASSIGNMENTS

Since HUD began accepting Claims for Insurance Benefits via Electronic Data Interchange (EDI), new issues have surfaced which require adjustments in policies and procedures. Specifically, HUD's determination of mortgagee compliance in the timely submission of Form [HUD-27011](#) will change, effective with the date of this Mortgagee Letter.

HUD regulations provide that mortgagees must notify HUD of a conveyance on the date the deed to HUD is filed for record. HUD policy has been to consider this requirement as having been met by the mortgagee where the claim was submitted on the date the deed to HUD was recorded or the date the deed to HUD was mailed directly to the recording authority. Because HUD allowed mortgagees to submit all claims via the U.S. Postal Service, all claims properly received by HUD within ten days from the date the deed to HUD was filed for recorded (or mailed to the recording authority), were considered timely.

Initially, no distinction was made between paper claims and claims

submitted via EDI in establishing submission requirements or in the determination of compliance with those requirements. HUD's previous strict interpretation of claim submission requirements resulted in technical non-compliance by many mortgagees submitting EDI claims. In deferring transmission until after midnight (when submission costs are often much lower) many mortgagees caused their interest to be curtailed when the actual date of submission was reflected in Item 6 of Form [HUD-27011](#).

HUD recognizes the inequity of this situation and is changing several policies and procedures to improve the claim process. Mortgagees shall continue to enter in Item 10 of Form HUD-27011 the date the deed to HUD was filed for record (or mailed to the recording authority) and shall continue to provide in Item 6 of Form HUD-27011, the date the claim form was prepared and submitted. A claim will suspend (and the claim payment will be delayed) if either or both of these date fields are left blank.

HUD's claim system will no longer automatically curtail the claim where the date in Item 6 is later than the date in Item 10. This change will affect both conveyance claims (claim type 01) and assignments (claim type 02). However, HUD will continue to monitor the timeliness of all claim submissions. HUD shall continue to expect receipt of all claims within ten days from the date the deed is filed for record (Item 10), and the automatic curtailment to the date in item 10, for failing to meet this time requirement shall continue without change.

The Secretary shall consider the mortgagee in compliance with the claim submission requirement of [24 CFR 203.360](#) if the date of claim submission is no later than two business days following the date the deed was filed for record. Under no circumstances shall submission be delayed beyond two business days. The Department will continue to monitor both the date of submission and the date of receipt in determining compliance.

3. SIMPLE ASSUMPTIONS

HUD requires that lenders submit a mortgage record change (Form [HUD-92080](#)) within 15 days of any change of mortgagor, mortgagee, or servicer. This is a reasonable requirement and is met in most instances by mortgage servicers. However, there are cases where lenders may not become aware of a change in ownership for many weeks or months in cases where there are no restrictions on assumability.

Therefore, HUD will consider mortgagees in compliance with this requirement if the notification (Form HUD-92080) is submitted within 15 days of the date the lender receives actual or constructive knowledge of the transfer of ownership.

4. RECERTIFICATION OF 235 MORTGAGES

In addition to the routine notification provided to Section 235 mortgagors as a part of the annual recertification process, mortgagees have been required to provide another additional notification reminding mortgagors of the recertification requirements. This additional notification was required annually within 30 days of the end of the calendar year. Although HUD indicated that this notification could be accomplished at the same time the mortgagor was provided the annual tax and interest statement, most mortgagees interpreted this to require a separate document and separate mailing.

Because the recertification process is so important to the proper payment of subsidy, some form of reminder will be retained. However, there is no

need for this duplication of effort and cost by the servicing mortgagee. This information does not need to be provided on a separate document or by a separate mailing.

Effective with the date of this letter, the additional notice reminding mortgagors of the recertification requirements, now required within 30 days after year end, may be incorporated into the annual statement of account that mortgagees routinely send to mortgagors.

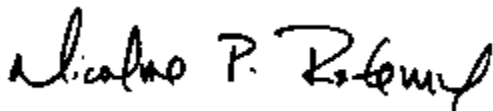
5. RISK-BASED PREMIUM RECONCILIATION

Mortgagees have requested assistance for their reconciliation of periodic and risk based mortgage insurance premiums. In this regard, HUD is developing a new system, Single Family Premium Collection Subsystem - Periodic (SFPCS-P), to reconcile periodic premiums at the case level. Information will be used to generate monthly bills with case level information to all lenders. HUD is also in the process of developing a mechanism to allow lenders to access their portfolio via download. Additionally, HUD has developed an EDI mechanism for processing terminations and record changes, which has eliminated the need for tapes.

The system under development, SFPCS-Periodic, will eliminate virtually all of the problems associated with premium collection, and is scheduled to be released in the fall of 1997.

Please direct any questions you may have to the attention of Joe McCloskey, Director, Single Family Servicing Division, at (202) 708-1672.

Sincerely yours,



Nicolas P. Retsinas
Assistant Secretary for Housing-
Federal Housing Commissioner