National Mortgage News
SERVICING

FHA greenlights stand-alone 40-year modification

By Bonnie Sinnock March 08, 2023, 1:25 p.m. EST 1 Min Read

The Federal Housing Administration is moving forward with a proposal that would help people with hardships make their mortgage payments more manageable.

Under the policy change, which follows a public notice and comment period last year, borrowers will be able to get a so-called stand-alone 40-year modification. Modifications are used to make loans more affordable when borrowers have had hardships that led to long-term reductions in income compared to the period in which their loans were first originated.

Previously, the Department of Housing and Urban Development division that insures mortgages widely used by first-time homebuyers with income constraints allowed loan terms to be modified out to 40-year terms only in conjunction with a partial claim.

Under the new policy, even if a distressed borrower exceeds limits for the amount that can be set aside to be paid later in a second lien (30% of the unpaid principal balance), they'll be able to extend the loan term out to 40 years.

A partial claim as implemented in response to the pandemic must still be included with a 40-year modification if funds are available, according to Mortgagee Letter 2023-06, which the FHA issued in conjunction with a final rule on March 8. The provisions of the letter allow immediate implementation, with a May 8 mandatory effective date.

The new policy will provide more leeway to homeowners with hardships, whose ability to get more affordable terms for their mortgages has been hamstrung by rising loan costs as federal monetary policy officials have put upward pressure on lending rates.

Other mortgages backed by the Department of Veterans Affairs and government-sponsored enterprises already had a similar type of modification as an option, but the FHA did not.

The department also recently moved to expand the applicability of some temporary mortgage contingencies previously used only for people with pandemic hardships through its COVID-19 loss mitigation options so that they also could be used to address other forms of distress.