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# HUD issues proposal for 40-year modifications

By Bonnie Sinnock April 01, 2022, 4:05 p.m. EDT 2 Min Read

The Department of Housing and Urban Development has formally proposed to amend regulations to accommodate 40-year FHA modifications that Ginnie Mae has been preparing add to the loans in its securitizations.

The proposal, published Friday in the Federal Register, calls for the modifications of Federal Housing Administration-insured mortgages to be structured somewhat like those available for loans other agencies oversee. Forty-year modifications are available for loans backed by government-sponsored enterprises Fannie Mae and Freddie Mac and the U.S. Department of Agriculture, or made by institutions regulated by the National Credit Union Administration. Ginnie has put 40-year USDA and VA modifications in securitizations.

Allowing the FHA to do something similar would broaden servicers' ability to offer more affordable modifications of loan terms to distressed borrowers who may be exiting forbearance with long-term income reductions due to the pandemic.

"It is great that they are aligning with the other agencies," said Marissa Yaker, managing attorney, regulatory affairs, at the Padgett Law Group, in an interview about the FHA's proposal. "You want to continue providing borrowers with all the options they can have." FHA borrowers with a 40-year mod may be able to get larger payment reductions than with a 30-year one, a recent Federal Reserve Bank of Philadelphia report suggests. An average 28% reduction in principal and interest may be possible with a 40-year mod, compared to 26% for a 30-year term. When P&I is combined with tax and insurance payments, the reduction would be 18% compared to 17%.

Extending the term of FHA modifications may not only further reduce payments for borrowers but make payment reductions less onerous for lenders, Patrick Harker, president and CEO of the Federal Reserve Bank of Philadelphia said in a speech at the Center for Financial Stability in New York on Thursday.

"Lenders may want to consider solutions that limit the costs of modification while providing more payment relief to borrowers," Harker said. "One such solution is for the Federal Housing Administration to offer 40-year mortgage modifications."

FHA-insured loans are made to lower-income borrowers who have less of a financial cushion than others, and their forbearance rates — while drastically reduced from pandemic highs — tend to outpace those seen in the larger Fannie Mae and Freddie Mac market.

The forbearance rate for FHA loans was 2.2% in Black Knight's latest weekly McDash Flash dataset report, reflecting information current as of March 29. In comparison, Fannie and Freddie's forbearance rate was just 0.8% in the Black Knight report. The number of loans in forbearance also is greater in the FHA market at 269,000 as compared to 223,000, Black Knight found in its examination of data representing roughly 70% of the market.

While in the short term, forbearance overall was up slightly as of March 29, in the long-term distressed loan activity is going to be increasingly focused on modifications and other workouts as growing numbers of pandemic-related payment suspension plans expire.

"Plans are down by 47,200 (-6%) from the same time last month," said Andy Walden, vice president, enterprise research and strategy, at Black Knight, in a blog published Friday. "Nearly 97,000 plans are still up for review by the end of March, with a third expected to be reaching their final expirations."