



## FHA Loss Mitigation Prep Guide

**Based on Mortgagee Letters 2025-12 & 2025-14**

*Effective October 1, 2025*

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### Background

After two years of development, FHA has finalized new post-COVID loss mitigation rules. These rules clarify borrower protections, streamline documentation, and establish guardrails.

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### Key Dates & Deadlines

- **July 1, 2025** – Loss Mitigation Interview (LMI) requirement begins
  - **October 1, 2025** – New FHA Loss Mitigation Waterfall becomes effective
  - **Ongoing** – Monitor deadlines for foreclosure referrals and extension requests
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### Major Changes You Need to Know

#### A. Loss Mitigation Interview (LMI)

- Servicers must attempt at least two LMI attempts before a loan hits 61 days delinquent.
- Borrowers must be informed of all available options, with SPOCs authorized to propose repayment plans.

#### B. New Waterfall of Options

1. Temporary Hardship → Forbearance Plan – now available for all hardship types
2. Can Resume Payments + Extra → Repayment Plan
3. Can Resume Payment → Partial Claim or Modification



4. Cannot Resume Payment → 30/40-year Modification, Combo Mod/PC, or Payment Supplement Agreement
  - Target: reduce P&I payment by **25%** (or lowest available).
5. No contact with the borrower → **O**utside of the **W**aterfall **L**oan Modification (OWL)

### C. Guardrails & Eligibility

- **24-month rule** for permanent loss mitigation workouts.
- At least **4 payments made since origination** required.
  - Except loan refinanced on same property by same borrowers.
- Subject to a clear **LDP & CAIVRS** reports.
- A Trial Payment Plan (TPP) is required for all workout options.
  - Standard duration: 3 months
    - 4 months for *Imminent Default*
    - 6 months for *Protected Transfers*

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### Documentation Requirements

- Minimal borrower documentation is required.
- Only exceptions: imminent default, service members, ownership rights verification, or protected transfers.

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### Operational Impacts

- Expect a lull in modification processing (3–4 months) as workflows adjust.
  - Servicers must increase monitoring teams for TPPs (trial payment plans).
  - More FLDD extension requests likely.
  - Prepare for higher Pre-Foreclosure Sale (PFS) and foreclosure activity in 2026.
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## Home Disposition

- HUD Form 90035 required for borrowers qualifying for Pre-Foreclosure Sale.
  - ATPs must be carefully tracked and returned within **10 days** or it is considered failed.
  - FLDD automatic extension triggers when ATP is signed, not issued.
  - All Partial Claims must be satisfied in full with net sale proceeds – (variances possible).
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## What To Do Now

- ✓ Update loss mitigation policies and procedures
  - ✓ Train SPOCs on new interview and Waterfall requirements
  - ✓ Establish borrower communication templates
  - ✓ Prepare staff ahead of the October 1st transition
  - ✓ Monitor and prepare for increased PFS demand
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## Key Takeaway

The streamlined approach is designed to resolve defaults earlier and reduce servicing costs, but it may not fully address borrowers with deeper hardships (death, divorce, disability).