



Rural Development



Avoid Foreclosure: Pre-Foreclosure Sale & Deed In Lieu to the Rescue!

Section 502 Guarantee Loan Program

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COST OF FORECLOSURE

Survey of FY 2017 paid claims

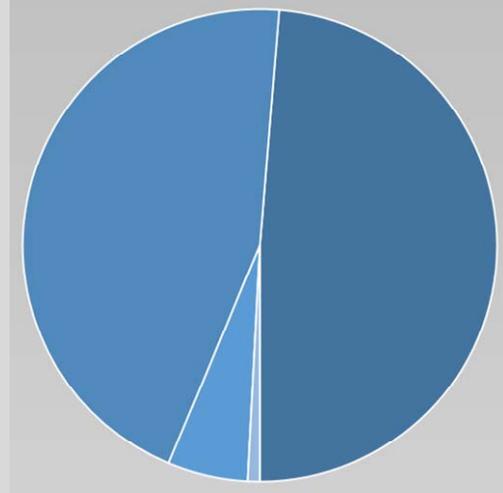
- Average loss claim: \$50,990
- Average liquidation costs: \$6,168



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LOSS MITIGATION OPTION USE

- ✓ **Loan Modification** 49%
- ✓ **Repayment Agreements** 45%
- ✓ **Pre-Foreclosure Sales** (Less than 1%)
- ✓ **Deed In Lieu** (Less than 1%)



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**COULD FORECLOSURE
BE AVOIDED?**



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EVIDENCE OF HOPE

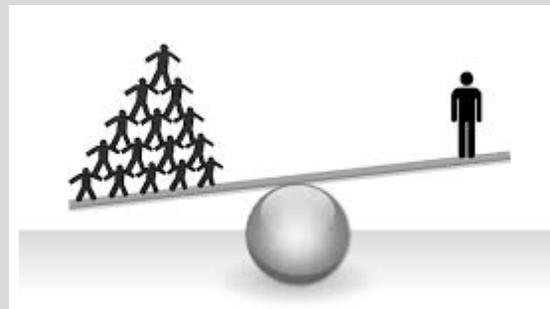
- Less than 3,000 claims
- Not due to foreclosure



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LEVERAGE YOUR OPTIONS!

- Pre-Foreclosure Sale
- Deed in Lieu

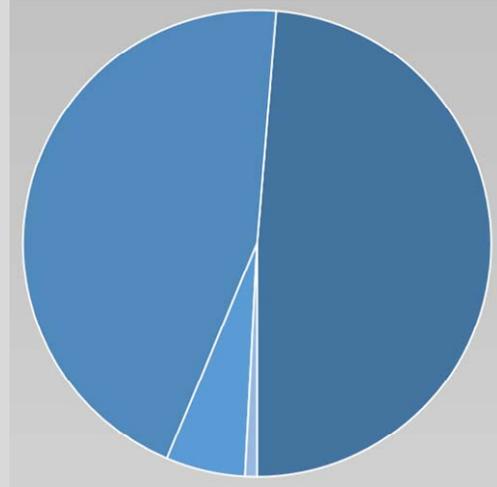


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Pre-Foreclosure Sales:
LESS THAN 1%?

Missed Opportunities?

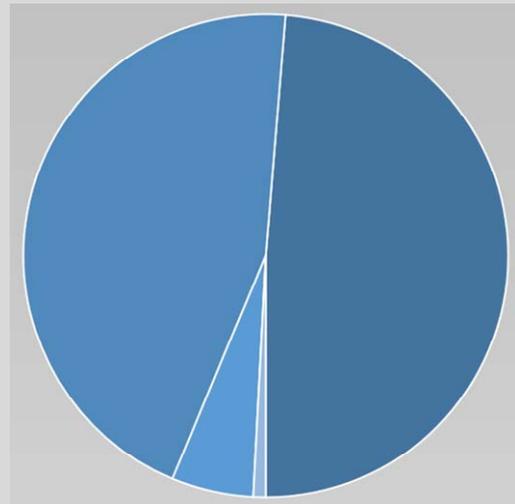
- Failed repayment plan
- Repair language confusing



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Deed In Lieu:
LESS THAN 1%?

- Short Sale falls apart
- Borrower in bankruptcy
- Failed repayment plan



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GOALS

- Empower Partners
- Encourage flexibility
- Document appropriately



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Regulation and Handbook

7 CFR 3555:

3555.305 Voluntary Liquidation

HB-1-3555: Chapter 18

Attachment 18-A: Loss Mitigation Guide



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USDA Regulations and Guidelines

<https://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555>

HB-1-3555 SFH GUARANTEED LOAN PROGRAM TECHNICAL HANDBOOK

A consolidated version of the handbook is available. HB-1-3555 is a large document and may take sometime to load.

Table of Contents

Chapter 1 - Overview
Chapter 2 - Record Retention
Chapter 3 - Lender Approval
Chapter 4 - Lender Responsibilities
Chapter 5 - Origination and Underwriting Overview
Chapter 6 - Loan Purposes
Chapter 7 - Loan Terms and Conditions
Chapter 8 - Applicant Characteristics
Chapter 9 - Income Analysis
Chapter 10 - Credit Analysis
Chapter 11 - Ratio Analysis
Chapter 12 - Property and Appraisal Requirements
Chapter 13 - Special Property Types
Chapter 14 - Funding Priorities
Chapter 15 - Submitting the Application Package
Chapter 16 - Closing the Loan and Requesting the Guarantee
Chapter 17 - Regular Servicing-Performing Loans
Chapter 18 - Servicing Non-Performing Loans - Accounts with Repayment Problems
Chapter 19 - Custodial and Real Estate Owned Property
Chapter 20 - Loss Claims - Collecting on the Guarantee
Acronyms
Glossary
Appendix 1 - 7 CFR part 3555
Appendix 2 - Forms and Instructions
Appendix 3 - Review and Appeals
Appendix 4 - Agency and Employee Addresses
Appendix 5 - Income Limits
Appendix 6 - Interest Assistance
Appendix 7 - Calves Access Instructions
Appendix 8 - EDI Documentation
Appendix 9 - Penalties
Appendix 10 - Unnumbered Letter and State Supplements

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APPLIED ASSUMPTIONS

- **Waterfalls are exhausted**

1. Informal Repayment Agreement
2. Special Forbearance
3. Loan Modification
4. Special Loan Servicing
5. Pre-Foreclosure Sale
6. Deed-In-Lieu

Special Relief Options:

1. Extended term and lower interest rate
2. Extended term, lower interest rate, and Mortgage Recovery Advance (MRA)
3. MRA alone

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LEARNING CHECKS: ***START YOUR ENGINES!***



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Question 1: True or False

- Borrower is discharged from Chapter 7 bankruptcy
- Mortgage debt is not reaffirmed

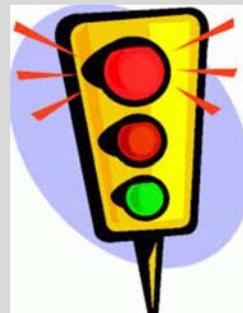
Lender must pursue PFS before a foreclosure may be initiated.

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Question 1: **FALSE**

Offer a Deed in Lieu (DIL)!

- Borrower is no longer liable for the mortgage debt
- No financial package is required: recent BK
- Save foreclosure/acquisition costs
- Title must be clear



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Question 2: True or False

- Borrower is 60 days delinquent
- Property appraised for \$100,000
- Required repairs: \$10k floor coverings, \$10k replace A/C and heating system, and \$10k deck replacement = \$30k total
- Repairs due to borrower neglect, not eligible for a homeowners insurance claim

Repairs exceed 10% of appraised value. A PFS or DIL is not an eligible option.

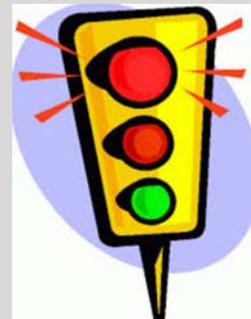
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Question 2: False

This property is eligible for a PFS or DIL.

- Property is in average to poor condition
- Repairs are not an insurable loss or eligible for reimbursement
- Lender may either 1. Offer PFS without repairs or 2. Offer DIL, complete repairs, market property

Either option = avoiding foreclosure and saving money



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Question 3: True or False

- Borrower is 30 days delinquent
- Residence was vacated and rented due to job relocation and upside down equity
- Renters left after two years, borrower is unable to cover the current mortgage

Borrower is eligible for a PFS.

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Question 3: True

The borrower is eligible for a PFS.

- Reason to vacate the property and hardship is involuntary
- Capacity to repay is not supported



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Question 4: True or False

- Borrower was approved for a PFS
- Reason for default was involuntary
- No capacity to repay the mortgage
- Property has been on the market for 90 days, no offers

Borrower is eligible for a DIL.

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Question 4: True

The borrower is eligible for a DIL.

- Borrower's capacity to repay is unchanged
- No new financial package is required if there is no change in hardship circumstances



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Question 5: True or False

- All borrowers to the mortgage are deceased
- The home is now held by the heirs of the estate
- Mortgage balance is \$105,000
- Appraised value is \$98,500

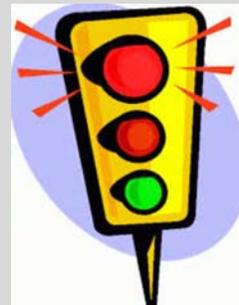
Lender must offer a PFS before a DIL could be considered.

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Question 5: False

The lender may offer the heirs a DIL.

- There is no equity in the home
- Title must be clear
- The DIL reduces the burden on the heirs
- Reduces financial costs to liquidate the property



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Question 6: True or False

- Loan is DQ 30 + days
- Loss of job 2 months ago
- Borrower was renovating the kitchen, fire occurred: Total damage: \$45,000
- Appraised value of dwelling: \$215,000
- Insurable loss

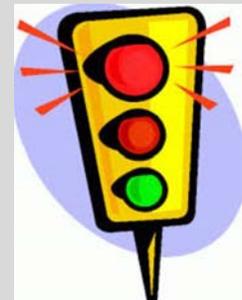
Lender must proceed to foreclosure due to damage.

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Question 6: False

The lender may offer the borrower a PFS.

- The damage is an insurable loss
- Lender must work with insurance company to repair
- Market property for 90 days
- If no sale after 90 days, proceed to DIL and continue to market property



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Goal: Avoid Foreclosure

- Reduce costs to lender and government
- Avoid lengthy litigation
- Encourage homeowner to leave peacefully, collateral intact
- Reduce personal/emotional loss
- Assist homeowner to maintain better credit: Avoid bankruptcy

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1. Reason
2. Prudence
3. Good judgment

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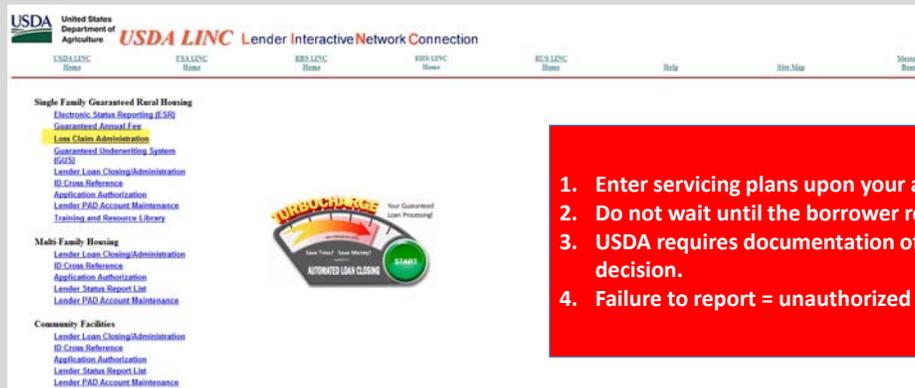


- 1. Document
- 2. Document
- 3. Document!

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Speaking of Document: USDA LINC

<https://usdalinc.sc.egov.usda.gov/RHShome.do>



- 1. Enter servicing plans upon your approval.
- 2. Do not wait until the borrower responds.
- 3. USDA requires documentation of your decision.
- 4. Failure to report = unauthorized servicing.

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USDA LINC: Loss Claim Administration



United States
Department of
Agriculture

GLS Lender Loss Claim Administration

[RHS LINC Home](#) | [Lender Profile](#) | [Help](#) | [Logoff](#)

Loss Mitigation

[Add Loss Mitigation](#)

[Loss Mitigation List](#) (Access to View /Update Loss Mitigation)

[Lender Display Document](#)

User Authorization

[Maintain Lender/Branch Representative](#)

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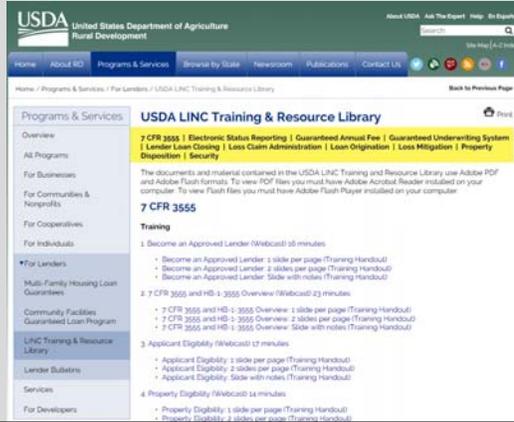
Helpful Tips

- Be Empowered!
- Put PFS and DIL options on the table
- Document decisions
- Low cost options are win/win

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Resources: USDA LINC

<https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library>



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Resources: USDA LINC

Loss Claim Administration and Servicing

Documentation & Resources

1. Guaranteed Servicing Contact Information (PDF)
2. Trading Partner Agreement - Addendum E (PDF)
3. Quick Reference Upload Loss Claim Documents (PDF)

Top of Page

Loan Origination

Documentation & Resources

1. Guaranteed Annual Fee Calculation Methodology (PDF)
2. Guarantee Fee & Annual Fee Calculator(EXCEL)
3. Electronic Doc Delivery (Non-GUS loans) PDF

Top of Page

Loss Mitigation

Documentation & Resources

1. Loss Mitigation Servicer User Guide (PDF)
2. RD Special Loan Servicing Final Rule (PDF)
3. RD Special Loan Servicing Job Aid (PDF)
4. Quick Reference Upload Loss Mitigation Documents(PDF)
5. Loss Mitigation User Agreement(PDF)

Top of Page

Property Disposition

Documentation & Resources

1. Property Disposition and Document Upload Servicer User Guide (PDF)

Top of Page

Security

Training

1. Lender eAuth Training for SFH (FLASH)

Documentation & Resources

1. Additional Lender Security Administrator - Filable (PDF)

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Resources: GovDelivery



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Resources: GovDelivery

Subscriber Preferences

- Rural Development Housing Programs
 - SFH Direct
 - SFH Direct Loan and Grant Programs
 - SFH Guaranteed
 - SFH Guaranteed Origination
 - SFH Guaranteed Servicing

The screenshot shows the GovDelivery 'Email Updates' form. The form includes a 'Subscription Type' dropdown menu set to 'Email' and an 'Email Address' input field. Below the form are 'SUBMIT' and 'CANCEL' buttons. Underneath, there is an 'OR' section with the text 'Sign in using your preferred social media account' and buttons for Facebook, Google, and Yahoo!.

