

Summary Contents

	Using the Digital Library	iii
	The Leading Resource for All Consumer Law	iv
	Contents	ix
Chapter 1	Introduction	1
Chapter 2	Common Mortgage Servicing Problems	17
Chapter 3	Servicing Requirements Under the Real Estate Settlement Procedures Act	55
Chapter 4	Other Federal Statutes Impacting Loan Servicing	179
Chapter 5	State Law Servicing Claims	229
Chapter 6	Loss Mitigation and Loan Modifications	253
Chapter 7	Loss Mitigation Options for Fannie Mae and Freddie Mac Mortgages	303
Chapter 8	Loss Mitigation for FHA-Insured Loans	331
Chapter 9	Loss Mitigation for Loans Insured by the Department of Veterans Affairs or the Rural Housing Service	357
Chapter 10	Legal Claims for Failure to Handle Loss Mitigation Properly	373
Chapter 11	Litigating Mortgage Servicing Claims	391
Appendix A	Federal Mortgage Servicing Law	421
Appendix B	Selected Statutes and Regulations Pertaining to Mortgages Held or Insured by the Federal Government	569

Appendix C	Agency Guidance, Consent Orders, Program Guidelines, and Policy Statements	599
Appendix D	Summary of State Mortgage Servicing, Payoff Statement, and Mortgage Discharge Laws	601
Appendix E	Foreclosure Prevention Practice Aids and Sample Mortgage Documents	629
Appendix F	Sample Pleadings	665
Appendix G	Glossaries	671
Appendix H	Helpful Websites	683
	Index	685

Contents

Using the Digital Library	iii
-------------------------------------	-----

The Leading Resource for All Consumer Law	iv
---	----

Chapter 1

Introduction

1.1 About This Treatise	1
1.1.1 Scope	1
1.1.2 All Subscribers Have Access to the Digital Version	1
1.1.3 The Appendices	2
1.1.4 Additional Pleadings, Practice Tools, and Primary Source Materials Found Online	2
1.1.5 Relation of Mortgage Servicing to Other NCLC Treatises	2
1.2 Understanding the Mortgage Market	3
1.2.1 Introduction	3
1.2.2 The Players in the Mortgage Origination Process	3
1.2.2.1 Mortgage Originator	3
1.2.2.2 Mortgage Broker	3
1.2.2.3 Loan Officer	4
1.2.2.4 Mortgage Electronic Registration System (MERS)	4
1.2.2.5 Real Estate Agent	4
1.2.2.6 Appraiser	4
1.2.2.7 Closing Agent or Attorney	4
1.2.2.8 Escrow Agent	4
1.2.2.9 Private Mortgage Insurance Companies	5
1.2.2.10 Government Mortgage Guarantors	5
1.2.3 Post-Closing Players	5
1.2.3.1 Introduction	5
1.2.3.2 Secondary Mortgage Market	5
1.2.3.3 Loan Owner	5
1.2.3.4 Securitization	6
1.2.3.4.1 In general	6
1.2.3.4.2 Players	7
1.2.3.4.3 Documentation	8
1.2.3.5 Mortgage Servicers	9
1.2.3.6 Default Services Providers	9
1.2.3.7 Lender's Foreclosure Attorney	9
1.2.3.8 Foreclosing Trustee	9
1.2.3.9 REO Management Companies	10
1.3 Mortgage Servicing Compensation and Cost Structure	10
1.3.1 In General	10
1.3.2 Servicer Compensation	10
1.3.3 Servicer Cost Structure	11
1.4 Analyzing a Mortgage Servicing Case	11
1.4.1 Introduction	11
1.4.2 Errors and Abuses During the Life of a Mortgage Loan	11

1.4.3	First Steps	13
1.4.4	Negotiating a Workout or Modification	15
1.4.5	Analyze for Servicing Claims	15

Chapter 2

Common Mortgage Servicing Problems

2.1	Introduction	17
2.2	Mortgage Math	17
2.3	Understanding Default and Acceleration	19
2.4	Payment Application Problems	20
2.4.1	Misapplication of Payments	20
2.4.2	Use of Suspense Accounts	22
2.5	Interest Overcharges	23
2.6	Escrow Account Issues	24
2.7	Force-Placed Insurance	26
2.8	Mishandling of Insurance Proceeds	30
2.9	Improper Lockouts	31
2.10	Improper Assessment of Fees	32
2.10.1	Overview	32
2.10.2	Property Inspection Fees	33
2.10.3	Broker's Price Opinions	35
2.10.4	Foreclosure Fees and Costs	35
2.10.5	Corporate Advances	35
2.10.6	Attorney Fees	36
2.10.7	Late Fees	36
2.10.7.1	Overview	36
2.10.7.2	Pyramiding Late Fees	38
2.10.7.3	Late Fees and Loan Modifications	38
2.10.7.4	Late Fees As Hidden Interest or Impermissible Penalties	39
2.11	Challenges for Successors in Interest	39
2.12	Failure to Consider Loss Mitigation Alternatives	40
2.13	Problems Related to the Transfer of Servicing	41
2.14	Credit Reporting Issues	42
2.15	Failure to Discontinue Private Mortgage Insurance	43
2.16	Untimely or Inaccurate Payoff Statements or Reinstatement Figures	45
2.17	Failure to Provide a Timely Release	46
2.18	Bankruptcy-Related Servicing Problems	47
2.18.1	Introduction	47
2.18.2	Bankruptcy-Related Fees	47
2.18.3	Interest Charge Abuses	51
2.18.4	Misapplication of Payments	51
2.18.5	Escrow Overcharges	52
2.18.6	Undisclosed Fees and Payment Changes	53

Chapter 3

Servicing Requirements Under the Real Estate Settlement Procedures Act

3.1	Overview	55
3.1.1	Introduction	55
3.1.2	Overview of Real Estate Settlement Procedures Act	55
3.1.3	Regulation X and the Official Interpretations	56
3.1.4	Private Enforcement of RESPA Provisions	56
3.2	Scope of RESPA	57
3.2.1	Introduction	57

3.2.2 Applicability to Borrowers 59

3.2.3 Applicability to Successors in Interest 60

3.2.4 Exemption for Certain Entities 62

3.2.5 Exemption for Small Servicers 62

3.2.6 Exemption for Certain Loans. 63

3.3 Servicer’s Duty to Provide Information and Correct Account Errors. 64

3.3.1 Introduction 64

3.3.2 What Is a Qualified Written Request, Notice of Error, or Request for Information?. 65

3.3.3 Qualifications for a Notice of Error. 66

3.3.3.1 Generally. 66

3.3.3.2 Covered Errors 67

3.3.3.3 General Category for Other Errors 68

3.3.3.4 Notice of Error Related to Loss Mitigation Application. 69

3.3.3.5 Duplicative and Overbroad Notice of Error 70

3.3.3.6 Qualified Written Requests As Dispute Notices Before January 10, 2014. 71

3.3.4 Qualifications for a Request for Information. 71

3.3.4.1 Generally. 71

3.3.4.2 Request for Information About Loss Mitigation. 72

3.3.4.3 Limited Request for Information by a Potential Successor in Interest 73

3.3.4.4 Request for the Loan “Servicing File” 74

3.3.4.5 Duplicative, Confidential, Overbroad, and Unduly Burdensome Requests for Information. 74

3.3.4.6 Qualified Written Requests As Information Requests Before January 10, 2014. 77

3.3.5 To Whom Can a Request or Notice Be Sent? 79

3.3.6 Where to Send a Request or Notice?. 79

3.3.6.1 Generally. 79

3.3.6.2 Notice of an Exclusive Address 80

3.3.6.3 Use of Multiple Offices and Internet Intake 80

3.3.6.4 Failure to Send Notice or Request to Exclusive Address. 81

3.3.7 Who Can Send a Request or Notice?. 82

3.3.8 When to Send a Request or Notice: Following Transfer of Servicing or Discharge of Loan?. 83

3.3.9 Servicer Obligations upon Receipt of a Request or Notice. 85

3.3.9.1 Generally. 85

3.3.9.2 Compliance with Notices of Error 85

3.3.9.2.1 Overview 85

3.3.9.2.2 Servicer remedies during response period; prohibition on adverse credit reporting 87

3.3.9.2.3 Reasonable investigation of error. 88

3.3.9.3 Compliance with Requests for Information 89

3.3.9.3.1 Overview 89

3.3.9.3.2 Reasonable search for requested information 90

3.3.9.3.3 Compliance with requests for identity of mortgage owner 90

3.3.9.4 Compliance with Qualified Written Requests Prior to January 10, 2014. 92

3.3.9.5 No Litigation Exemption 92

3.3.10	Prohibition on Charges for Responding to a Request or Notice	93
3.3.11	Class Action Issues	94
3.3.12	Pleading a Section 2605(e) Violation	94
3.4	Transfer of Servicing	94
3.4.1	Introduction	94
3.4.2	Disclosure at Time of Loan Application	95
3.4.3	Notice at Time of Transfer	96
3.4.3.1	Generally	96
3.4.3.2	Contents of Servicing Transfer Notice	97
3.4.3.3	Treatment of Escrow Accounts upon Transfer of Servicing	97
3.4.3.4	Payment Grace Period During Transfer Period	98
3.4.4	Pleading a Transfer Requirement Violation	98
3.5	Servicer’s Escrow Account Management	98
3.5.1	Introduction	98
3.5.2	Escrow Account Analysis	100
3.5.2.1	Generally	100
3.5.2.2	General Limits on Escrow Deposits	100
3.5.2.3	Aggregate Analysis	101
3.5.2.4	Charges at Settlement or upon Creation of the Account	102
3.5.3	Escrow Account Statements	102
3.5.3.1	Initial Account Statement	102
3.5.3.2	Annual Account Statement	103
3.5.3.2.1	General requirements	103
3.5.3.2.2	“Short year” annual escrow account statement	103
3.5.3.2.3	Exemption if account is overdue or in foreclosure, or if borrower is in bankruptcy proceeding	104
3.5.3.3	Delivery of Escrow Account Statements	105
3.5.4	Surpluses, Shortages, and Deficiencies	105
3.5.4.1	Generally	105
3.5.4.2	Requirements for Surpluses	105
3.5.4.3	Requirements for Shortages	106
3.5.4.4	Requirements for Deficiencies	106
3.5.4.5	Notice of Shortage or Deficiency	106
3.5.5	No Fee for Account Statements	107
3.5.6	Servicer’s Duty to Make Timely Escrow Payments	107
3.5.6.1	Generally	107
3.5.6.2	Timely Escrow Payments	107
3.5.6.3	Exemption If Account Is Overdue	108
3.5.6.4	Pleading Requirements	108
3.5.7	Refund of Escrow Account Balance upon Payoff	109
3.5.8	Private Enforcement of Escrow Provisions	109
3.6	Force-Placed Insurance	110
3.6.1	Introduction	110
3.6.2	Definition of “Force-Placed Insurance”	111
3.6.3	Basis for Charging for Force-Placed Insurance	111
3.6.3.1	Generally	111
3.6.3.2	Initial Notice Requirements	112
3.6.3.3	Subsequent Notice of Renewal or Replacement of Force-Placed Insurance	113
3.6.3.4	Format of Notices	113
3.6.4	Charging for Force-Placed Insurance: Proof of Coverage and Cancellation	113

3.6.5	Duty to Timely Disburse Out of Escrow Rather Than Purchase Force-Placed Insurance	114
3.6.6	Limitations of Fees	115
3.6.7	Exemptions from Coverage	115
3.6.8	Regulation of Flood Insurance.	115
3.7	Early Intervention Requirements	116
3.7.1	Introduction	116
3.7.2	Definition of Delinquency	116
3.7.3	Live Contact with Borrower	117
3.7.4	Preforeclosure Written Notice Regarding Loss Mitigation	118
3.7.5	Exemptions from Coverage	119
3.7.5.1	Generally.	119
3.7.5.2	Partial Exemption for Borrowers in Bankruptcy	119
3.7.5.2.1	Overview	119
3.7.5.2.2	Interim final rule before October 19, 2017.	119
3.7.5.2.3	Final rule after October 19, 2017	120
3.7.5.3	Borrowers Who Have Sent an FDCPA Cease Communication Letter	120
3.8	Loss Mitigation Procedures	121
3.8.1	Introduction	121
3.8.2	Evaluation of the Loss Mitigation “Application”	122
3.8.2.1	Generally.	122
3.8.2.2	Complete Loss Mitigation Application.	123
3.8.2.3	Servicer’s Duties upon Receipt of an Application: the Section 1024.41(b)(2) Acknowledgement Notice	124
3.8.2.4	Reasonable Deadline for Completing an Incomplete Application	125
3.8.2.5	Servicer’s Duties upon Receipt of “Facially Complete” Application	126
3.8.2.6	Notice of Complete Application	127
3.8.2.7	Duty to Evaluate a Complete Application	127
3.8.2.8	Duty to Evaluate for All Available Options	128
3.8.2.9	Non-RESPA Requirements to Evaluate Application Submitted Within Thirty-Seven Days of Foreclosure.	129
3.8.2.10	Actions Based on an Incomplete Application.	129
3.8.2.11	Information Not in the Borrower’s Control	131
3.8.2.12	Denial of Loan Modification Options.	132
3.8.3	Duty to Comply Following Transfer of Servicing.	133
3.8.3.1	Generally.	133
3.8.3.2	Transfer Requirements Until October 19, 2017	133
3.8.3.3	Transfer Requirements After October 19, 2017	134
3.8.3.3.1	Overview	134
3.8.3.3.2	Additional time to send acknowledgement notice	135
3.8.3.3.3	Complete application pending at transfer.	137
3.8.3.3.4	Applications subject to appeal at transfer date.	137
3.8.3.3.5	Pending loss mitigation offers	138
3.8.4	Deadline for Borrower’s Response to Loss Mitigation Offer	138
3.8.5	Appeal Rights for Loan Modification Denials.	139
3.8.6	Written Notices to Borrowers Required by Loss Mitigation Rules.	139
3.8.7	Restrictions on Dual Tracking	140
3.8.7.1	Generally.	140
3.8.7.2	The 120-Day Preforeclosure Review Period	140

3.8.7.3	When Does the 120-Day Period Begin?	141
3.8.7.4	What Is the “First Notice or Filing?”	142
3.8.7.5	Extended Preforeclosure Review Period	142
3.8.7.6	Dual Tracking Restrictions After Initiation of Foreclosure	143
3.8.8	Determining the Loss Mitigation Timeline	145
3.8.9	Exclusion for “Duplicative” Applications	147
3.8.9.1	Coverage of the Exclusion Before October 19, 2017	147
3.8.9.2	Coverage of the Exclusion After October 19, 2017	148
3.8.9.3	When Does the Duplicative Application Exclusion Not Apply?	148
3.8.9.4	Impact of Exclusion on Other Servicing Requirements	150
3.8.10	Small Servicer and Other Exemptions from Coverage	150
3.9	Continuity of Contact	151
3.9.1	Introduction	151
3.9.2	Duty to Assign Personnel to Borrower	151
3.9.3	Assistance in Completing the Loss Mitigation Application	152
3.9.4	Exemptions from Coverage	152
3.9.5	No Private Remedy for Violations	152
3.10	RESPA General Servicing Policies, Procedures, and Requirements	152
3.10.1	Introduction	152
3.10.2	Timely and Accurate Information	153
3.10.3	Proper Evaluation of Loss Mitigation Applications	153
3.10.4	Successors in Interest	153
3.10.5	Transfer of Servicing	154
3.10.6	Record Retention and Servicing File	154
3.11	Servicer Defenses	155
3.11.1	The “Safe Harbor” Statutory Defense	155
3.11.2	Contractual Right to Notice of Violation and Opportunity to Cure	156
3.11.3	Borrower in Bankruptcy Proceeding	156
3.11.3.1	No Bankruptcy Exemption Under Servicer Act or Regulation X	156
3.11.3.2	No Conflict Between RESPA and Bankruptcy Code	156
3.12	Consumer Remedies	159
3.12.1	Introduction	159
3.12.2	Standing	160
3.12.2.1	Generally	160
3.12.2.2	Application of <i>Spokeo</i> to RESPA Servicing Claims for Statutory Damages	160
3.12.3	Actual Damages	162
3.12.3.1	Generally	162
3.12.3.2	Recovery of Emotional Distress Damages	164
3.12.3.3	Avoiding Dismissal or Summary Judgment by Sufficiently Pleading Actual Damages	165
3.12.4	Statutory Damages	165
3.12.4.1	Generally	165
3.12.4.2	The “Pattern or Practice” Requirement	166
3.12.5	Availability of Injunctive Relief	167
3.12.6	RESPA Violation As Defense to Foreclosure or Claim for Wrongful Foreclosure	170
3.12.7	Parties Liable for RESPA Servicing Violations	172
3.12.8	Demand for Jury Trial	173
3.12.9	RESPA’s Statute of Limitations	173

3.13	RESPA Preemption	174
3.14	RESPA Servicing Claims Chart	174

Chapter 4

Other Federal Statutes Impacting Loan Servicing

4.1	Introduction	179
4.2	Truth in Lending Act	179
4.2.1	Overview	179
4.2.2	Scope of TILA	180
4.2.3	Interest Rate and Payment Change Notices	180
4.2.4	Prompt Crediting of Payments	181
4.2.4.1	In General	181
4.2.4.2	Prompt Crediting Under FRB Rule	181
4.2.4.3	Prompt Crediting Under Dodd-Frank TILA Amendments and CFPB Regulations	182
4.2.4.3.1	Generally	182
4.2.4.3.2	Partial payments	183
4.2.4.3.3	Non-conforming payments	183
4.2.4.3.4	Crediting of payments on loan modifications	183
4.2.4.4	Pyramiding of Late Fees	184
4.2.5	Periodic Mortgage Statements	184
4.2.5.1	In General	184
4.2.5.2	Application of Periodic Statement Requirement	184
4.2.5.3	Form and Content of Periodic Statement	185
4.2.5.4	Periodic Statements for Borrowers in Bankruptcy	187
4.2.5.4.1	General	187
4.2.5.4.2	Interim final rule before April 19, 2018	187
4.2.5.4.3	Final rule after April 19, 2018	188
4.2.5.4.4	Opt-in or opt-out right	190
4.2.5.4.5	Modified statements for consumers in bankruptcy	191
4.2.5.4.6	Modified statements for consumers in chapter 13 cases	192
4.2.5.4.7	Transition to modified and unmodified statements	193
4.2.5.5	General Exemptions from Coverage	194
4.2.5.6	Coupon Book Exemption	195
4.2.5.7	Exemption for Charged Off Loans	195
4.2.6	Payoff Statements	196
4.2.6.1	Duty to Provide Timely Payoff Statement	196
4.2.6.2	Request by Consumer’s Agent	197
4.2.6.3	Comparison with Former Rule	197
4.2.6.4	Coverage, Limitations, and Exemptions	197
4.2.6.5	Interaction with RESPA—Right to Dispute Accuracy of Payoff Statement	198
4.2.6.6	No Preemption of State Law	198
4.2.7	Mortgage Transfer of Ownership Notices	198
4.2.7.1	General	198
4.2.7.2	Persons Subject to the Notice Requirement	199
4.2.7.3	Timing of Disclosure Requirement	200
4.2.7.4	Persons Entitled to Receive Disclosure	201
4.2.7.5	Content of Required Disclosures	201
4.2.7.5.1	Identification of the loan	201
4.2.7.5.2	New owner’s identity, address, and telephone number	201

4.2.7.5.3	Transfer date	201
4.2.7.5.4	Agent’s contact information	201
4.2.7.5.5	Recording location	202
4.2.7.5.6	Partial payment policy	202
4.2.7.5.7	Optional disclosures	202
4.2.7.6	Private Remedies for Violation of Transfer Notice Requirement	202
4.2.8	Request for Identity of Mortgage Owner	203
4.2.9	Requirements for Escrow Accounts	203
4.2.9.1	Escrow Cancellation Notices	203
4.2.9.2	Escrow Accounts on Higher-Priced Mortgage Loans	204
4.2.10	Prohibition on Arbitration and Restrictions on Court Actions	204
4.2.11	Limitations on Default Interest Rate	205
4.2.12	Private Remedies for Violation of the TILA Servicing Requirements	205
4.2.13	TILA Servicing Claims Chart	206
4.3	Fair Debt Collection Practices Act	208
4.3.1	Introduction	208
4.3.2	FDCPA Coverage	208
4.3.3	Substantive Prohibitions	210
4.3.4	FDCPA Remedies	212
4.3.5	Claims Under State Debt Collection Statutes	212
4.4	Fair Credit Reporting Act	212
4.5	Telephone Consumer Protection Act	214
4.6	Homeowner’s Protection Act of 1998 (Private Mortgage Insurance)	214
4.7	Servicemembers Civil Relief Act	215
4.7.1	Overview	215
4.7.2	Interest Rate Reduction Under the Act	215
4.7.3	2010 Amendments Explicitly Establish Private Right of Action to Enforce SCRA	216
4.8	Garn-St Germain Act—Limitations on Due-On-Sale Clauses	216
4.8.1	Overview	216
4.8.2	Successors Have the Right to Obtain Loan Information	217
4.8.3	Successors Have the Right to Stay and Pay	218
4.8.3.1	Garn-Exempt Transfers	218
4.8.3.2	Explicit Waiver by Agreement	219
4.8.3.3	Implicit Waiver by Accepting Payments or Failing to Respond	220
4.8.3.4	Contractual Limits on Due-on-Sale Clauses Are Not Preempted	220
4.8.3.5	Prepayment Fees and Loan Acceleration	221
4.8.4	Successors Have the Right to Assume the Loan	221
4.8.4.1	Overview	221
4.8.4.2	Mortgage Loans are Freely Assumable Based on State Contract Law	221
4.8.4.3	Loan Modification Program Rules Requiring Simultaneous Modification and Assumption	223
4.8.4.4	Legal Claims Arising Out of Failure to Properly Evaluate Successors in Interest for Loan Modification and Assumption	224
4.8.5	Successors Have the Right to Cure a Mortgage Default in Bankruptcy	225

Chapter 5

State Law Servicing Claims

5.1	Introduction	229
-----	------------------------	-----

5.2	State Servicing Statutes	229
5.2.1	Scope	229
5.2.2	Transfer Notice Requirements	229
5.2.3	Borrower Inquiries and Account Information	230
5.2.4	Escrow Requirements	230
5.2.5	Private Mortgage Insurance	231
5.2.6	Special Servicing Requirements for High-Cost Loans	231
5.2.7	Loss Mitigation	231
5.2.8	Payoff Statements	232
5.2.9	Mortgage Discharge Requirements	232
5.3	State Unfair and Deceptive Acts and Practices Statutes	232
5.4	Claims Under State Debt Collection Statutes	234
5.5	Breach of Contract	234
5.5.1	General	234
5.5.2	Privity As a Prerequisite to Servicer Liability	236
5.6	Breach of the Implied Covenant of Good Faith and Fair Dealing	237
5.7	Breach of Fiduciary Duty	240
5.8	Tort Liability	240
5.8.1	Introduction	240
5.8.2	Fraud and Fraudulent Misrepresentation	241
5.8.3	Negligence	242
5.8.4	Negligent Misrepresentation	245
5.8.5	Intentional Infliction of Emotional Distress	246
5.8.6	Intentional Interference with Contractual Relations	247
5.8.7	Unjust Enrichment	247
5.8.8	Libel	248
5.8.9	Conversion	248
5.8.10	Wrongful Foreclosure	249
5.8.11	Promissory Estoppel	249
5.8.12	Trespass	250
5.9	Preemption of State Servicing Laws	250
5.9.1	General Preemption Under RESPA	250
5.9.2	Preemption of Servicing Transfer Notice Requirements	251
5.9.3	Preemption Under TILA	252
5.9.4	Other Federal Law Preemption	252

Chapter 6

	Loss Mitigation and Loan Modifications	
6.1	Introduction	253
6.1.1	The Changing Climate for Workouts	253
6.1.2	Organization of This Chapter	253
6.2	Types of Loss Mitigation	254
6.2.1	General	254
6.2.2	Repayment Plans	254
6.2.3	Forbearance Plans	254
6.2.4	Permanent Loan Modifications	255
6.2.4.1	Overview	255
6.2.4.2	Capitalization	255
6.2.4.3	Interest Rate Reductions	256
6.2.4.4	Term Extension	256
6.2.4.5	Principal Forbearance	256
6.2.4.6	Forgiveness of Principal or Arrears	256
6.2.5	Presales and Other Transfers of the Property	256

6.2.5.1	Short Sales	256
6.2.5.2	Deeds in Lieu of Foreclosure	257
6.3	Alternatives to a Workout or Modification	257
6.3.1	Bankruptcy	257
6.3.2	Refinancing	258
6.3.3	Federal, State, and Local Mortgage Assistance Programs	259
6.3.4	Selling the Home	260
6.3.5	Mortgage Assumption	260
6.4	Evaluating Loss Mitigation Alternatives	261
6.4.1	Client Needs for Representation	261
6.4.2	Preparation Tips	262
6.4.3	The Client’s Objectives	262
6.4.4	Knowing the Players	262
6.4.5	Understanding the Default	263
6.4.5.1	Overview	263
6.4.5.2	Seeking Information About the Amount Claimed Due	263
6.4.5.3	RESPA Provision Requires Servicers to Provide Information About Loan Accounts and to Correct Errors	263
6.4.6	Determining Whether Your Client Has Defenses to Repayment	264
6.4.7	Timing	264
6.4.8	Relevance of the Homeowner’s Equity Position	264
6.4.9	Saving Up a Lump Sum	265
6.5	Seeking a Modification or Other Workout	265
6.5.1	Knowing What Terms to Request	265
6.5.2	Knowing the Parameters of the Mortgage Holder’s or Insurer’s Policies	265
6.5.2.1	General	265
6.5.2.2	Workout Limits Based Upon a Loan’s Securitization	265
6.5.2.3	Net Present Value As a Predictor of Modification Success	266
6.5.3	Requesting Delay of Foreclosure Sales	266
6.5.4	Where the Servicer Initiates a Modification	267
6.5.5	The Homeowner’s Application for a Workout	267
6.5.6	Workout and Foreclosure Fees	268
6.5.7	Dealing with an Unresponsive Servicer	268
6.5.8	Evaluating a Workout Offer	269
6.5.9	Documenting an Agreement	270
6.5.9.1	General	270
6.5.9.2	Watch Out for Waiver Clauses	270
6.5.9.3	Make Sure You Can Enforce the Agreement	271
6.5.9.4	Limit Confidentiality Clauses	271
6.5.9.5	Change the Account Number	271
6.5.9.6	Forbid Future Solicitation of Your Client	271
6.6	A Workout’s Potential Adverse Consequences	271
6.6.1	Tax Consequences of Workout Options	271
6.6.2	Credit Reporting Consequences	273
6.6.3	Consequences for Receipt of Public Benefits	274
6.7	Expired Modification Programs	274
6.7.1	Overview	274
6.7.2	Home Affordable Modification Program (HAMP)	274
6.7.2.1	HAMP Described	274
6.7.2.2	HAMP Sunset	275
6.7.2.3	Which Mortgages Were Covered by the HAMP Rules?	277
6.7.2.4	HAMP Eligibility	277

6.7.2.5	The HAMP “Waterfall”	279
6.7.2.6	The Net Present Value Test	282
6.7.2.6.1	General	282
6.7.2.6.2	The FDIC’s NPV Calculator	283
6.7.2.6.3	Comparison between HAMP’s NPV Calculator and the FDIC spreadsheet	284
6.7.2.7	Initiating the Application Process	285
6.7.2.8	Servicer’s Review of the Application	286
6.7.2.9	Where an Application Was Denied	286
6.7.2.9.1	Notice requirement	286
6.7.2.9.2	Denial based on investor not participating in the HAMP program	287
6.7.2.10	The Trial Period Plan	288
6.7.2.11	The Permanent Modification	288
6.7.2.12	Principal Reduction Alternative (PRA)	288
6.7.2.13	Borrowers in Bankruptcy	289
6.7.2.14	Restrictions on Foreclosure Actions	289
6.7.2.15	HAMP Tier 2	290
6.7.2.16	Streamline HAMP	290
6.7.2.17	HAMP Incentives to Servicers, Holders, and Homeowners	291
6.7.3	The Second Lien Modification Program (2MP)	292
6.7.3.1	2MP Described	292
6.7.3.2	The 2MP Trial Period Plan	292
6.7.3.3	2MP Modification/Extinguishment Steps	293
6.7.3.4	2MP and Borrowers in Bankruptcy	293
6.7.3.5	2MP Incentives	294
6.7.4	Home Affordable Unemployment Program (UP)	294
6.7.5	Home Affordable Foreclosure Alternatives (HAFA)	295
6.7.6	Home Affordable Refinance Program (HARP)	295
6.7.7	Treasury/FHA Second Lien Program (FHA2LP)	295
6.7.8	National Mortgage Servicing Settlements	296
6.7.8.1	Overview	296
6.7.8.2	Consumer Relief Provisions	297
6.7.8.2.1	Introduction	297
6.7.8.2.2	Consumer relief provisions from other settlements	297
6.7.8.3	Servicing Reforms	298
6.7.8.3.1	Introduction	298
6.7.8.3.2	Private enforcement	298
6.7.8.3.3	Documentation in foreclosure and bankruptcy proceedings	298
6.7.8.3.4	Preforeclosure notices	299
6.7.8.3.5	Authority to foreclose	299
6.7.8.3.6	Requirements in bankruptcy cases	299
6.7.8.3.6.1	Proofs of claim	299
6.7.8.3.6.2	Bankruptcy mortgage rules	299
6.7.8.3.6.3	Stay relief motions	300
6.7.8.3.6.4	Payment application in chapter 13 cases	300
6.7.8.4	General Servicing Provisions	300
6.7.8.4.1	Monthly statements	300
6.7.8.4.2	Servicing fees	300

6.7.8.4.3	Application of payments	301
6.7.8.4.4	Force-placed insurance	301
6.7.8.5	Restrictions on the Dual Tracking of Foreclosure Proceedings	302

Chapter 7

	Loss Mitigation Options for Fannie Mae and Freddie Mac Mortgages	
7.1	Overview	303
7.2	Procedural Protections During Loss Mitigation	303
7.2.1	The Servicing Alignment Initiative and CFPB Rules	303
7.2.2	Appeal Process for the Denial of Loan Modifications	304
7.2.3	Limitations on Dual Tracking	305
7.2.3.1	In General	305
7.2.3.2	Delays in Foreclosure Proceedings Prior to Referral of the Loan to a Foreclosure Attorney	306
7.2.3.3	Delays in Foreclosure Proceedings After Referral of the Loan to a Foreclosure Attorney	306
7.3	Fannie Mae and Freddie Mac Loan Modification Programs	308
7.3.1	The Flex Modification	308
7.3.1.1	Introduction	308
7.3.1.2	The Implementation Schedule for the Flex Modification	308
7.3.1.3	The Basic Structure of the GSE Flex Modification Program	309
7.3.1.3.1	Overview	309
7.3.1.3.2	The application for a Flex Modification	309
7.3.1.3.3	When can the borrower apply for a Flex Modification?	309
7.3.1.3.4	The Trial Period Plan Offer	310
7.3.1.3.5	The servicer's unilateral offer of a Flex Modification based on proactive solicitation	310
7.3.1.4	General Eligibility Requirements for the Flex Modification	311
7.3.1.5	The Flex Modification Waterfall	312
7.3.1.5.1	The basic Flex Modification waterfall	312
7.3.1.5.2	The Flex Modification waterfall for borrowers who submit a complete BRP before they become ninety days delinquent	313
7.3.1.6	The Role of an Application in the Flex Modification Program	314
7.3.1.7	The Interaction of the CFPB Mortgage Servicing Rules with the Flex Modification	315
7.3.2	Special Loan Modification Programs for Disaster Victims	316
7.3.3	Expired Fannie Mae and Freddie Mac Loan Modification Programs	316
7.3.3.1	GSE HAMP	316
7.3.3.2	Standard Modification	318
7.3.3.3	Streamlined Modification	319
7.3.3.4	2MP for Second Mortgages	320
7.3.3.5	MyCity Modifications for Detroit and Cook County	321
7.4	Other Workout Options for Fannie Mae Loans	321
7.4.1	General	321
7.4.2	The Hardship Requirement	321
7.4.3	Fannie Mae Temporary Hardship Measures	321
7.4.4	Fannie Mae Permanent Hardship Options	322
7.4.4.1	Overview	322
7.4.4.2	Mortgage Assumption	322
7.4.4.3	Short Sale	323
7.4.4.4	Mortgage Release (Deed in Lieu)	324

7.5	Other Options for Freddie Mac Loans	325
7.5.1	In General	325
7.5.2	The Hardship Requirement	325
7.5.3	Reinstatement	326
7.5.4	Relief Options	326
7.5.5	Freddie Mac Workout Options.	327
7.5.5.1	In General	327
7.5.5.2	Workout Mortgage Assumption	328
7.5.5.3	Short Sale	328
7.5.5.4	Deed in Lieu	329
7.5.5.5	Charge-Offs.	330

Chapter 8

Loss Mitigation for FHA-Insured Loans

8.1	Introduction	331
8.2	The FHA Loss Mitigation Program	331
8.2.1	General.	331
8.2.2	The Evolution of the FHA Loss Mitigation Program	332
8.2.2.1	Introduction.	332
8.2.2.2	The Role of HUD’s Single Family Housing Policy Handbook	332
8.2.2.3	HUD’s Initial Loss Mitigation Guidelines from 2000	333
8.2.2.4	HUD’s Reaction to the Foreclosure Crisis and Initial FHA-HAMP	334
8.2.2.5	HUD’s Revisions to FHA-HAMP	334
8.2.3	Updated Home Retention Options.	335
8.2.3.1	Basic Terms.	335
8.2.3.2	FHA Current Waterfall Retention Options	337
8.2.3.3	FHA-HAMP Calculation	339
8.2.3.4	FHA-HAMP Calculation Examples	341
8.2.3.5	Retention Option Eligibility Requirements and Other Issues.	342
8.2.4	Non-Retention Option Issues.	345
8.2.5	Processing Loss Mitigation Applications and Appeals	346
8.2.6	Refinance Programs	348
8.2.7	The Essential HUD Regulations for Loss Mitigation Reviews.	348
8.2.7.1	Background.	348
8.2.7.2	The Relationship Between HUD’s Regulations, Handbook, and Other Guidelines	350
8.2.7.3	Introductory Regulations—24 C.F.R. §§ 203.500, 203.501, and 203.600.	350
8.2.7.4	Notice—24 C.F.R. § 203.602	350
8.2.7.5	Face-to-Face Meeting—24 C.F.R. § 203.604.	351
8.2.7.6	Periodic Review of Loss Mitigation—24 C.F.R. § 203.605.	352
8.2.7.7	Compliance with Regulations, Default in Payment, Acceleration Notice—24 C.F.R. § 203.606	353
8.2.7.8	Reinstatement, Special Forbearance, Loan Modification, 24 C.F.R. §§ 203.608, 203.614, 203.616	353
8.3	Overview of FHA Disaster-Related Assistance.	353
8.3.1	General.	353
8.3.2	Moratorium	354
8.3.3	Mortgage Forbearance.	354
8.3.4	Loss Mitigation and Occupancy	354
8.3.5	Disaster Modification Terms and Streamlined Application.	354

Chapter 9

Loss Mitigation for Loans Insured by the Department of Veterans Affairs
or the Rural Housing Service

9.1	Introduction	357
9.2	Mortgages Guaranteed by the Department of Veterans Affairs	357
9.2.1	Overview	357
9.2.2	Loss Mitigation Options for VA-Guaranteed Loans	357
9.2.2.1	Overview	357
9.2.2.2	Repayment Plan	359
9.2.2.3	Special Forbearance	359
9.2.2.4	Modification	359
9.2.2.5	Compromise Sale	361
9.2.2.6	Deed in Lieu of Foreclosure	361
9.2.2.7	Assumption	361
9.2.2.8	Refunding	362
9.2.2.9	Refinancing	362
9.3	Mortgages Held or Guaranteed by the Rural Housing Service	362
9.3.1	Rural Housing Mortgages	362
9.3.2	Section 502 Direct Loans	363
9.3.2.1	In General	363
9.3.2.2	Workout Options for RHS Direct Loans	363
9.3.2.2.1	General	363
9.3.2.2.2	Interest credit, payment assistance, and other subsidies	363
9.3.2.2.3	Payment moratorium	364
9.3.2.2.4	Delinquency workout agreement	365
9.3.2.2.5	Protective advances	365
9.3.2.2.6	Reamortization	365
9.3.2.2.7	Short sale	365
9.3.2.2.8	Deed in lieu of foreclosure	366
9.3.3	Section 502-Guaranteed Loans	366
9.3.3.1	General	366
9.3.3.2	Overview of 502-Guaranteed Workout Options	366
9.3.3.2.1	Generally	366
9.3.3.2.2	Special forbearance	368
9.3.3.2.3	Modification	368
9.3.3.2.4	Special loan servicing	368
9.3.3.2.5	Preforeclosure sale	369
9.3.3.2.6	Deed in lieu of foreclosure	369
9.4	Debts Owed to the Federal Government	370
9.5	Summary of Options for VA and RHS Loans Impacted by Natural Disaster	370
9.5.1	General	370
9.5.2	VA Disaster-Related Guidance	370
9.5.2.1	Overview	370
9.5.2.2	Mortgage Forbearance	371
9.5.2.3	Foreclosure Moratorium	371
9.5.2.4	Waiver of Late Charges; Credit Reporting	371
9.5.3	USDA Rural Development Disaster-Related Guidance	371
9.5.3.1	Overview	371
9.5.3.2	Moratorium	371
9.5.3.3	Payment Assistance	372
9.5.3.4	Rural Development and RHS Guaranteed Mortgage Loans	372

Chapter 10	<p>Legal Claims for Failure to Handle Loss Mitigation Properly</p> <p>10.1 Introduction 373</p> <p>10.2 Failure to Consider Loss Mitigation 374</p> <p style="padding-left: 20px;">10.2.1 Equitable Nature of Foreclosure Requires Prior Loss Mitigation 374</p> <p style="padding-left: 20px;">10.2.2 Industry Standards and the Duty to Maximize Investor Returns 376</p> <p>10.3 Failure to Honor Trial Period Plans and Permanent Modifications 377</p> <p style="padding-left: 20px;">10.3.1 Breach of Contract Arguments Related to Trial Period Plans 377</p> <p style="padding-left: 20px;">10.3.2 Statute of Frauds and Other Arguments Related to Servicer’s Failure to “Sign and Return” 380</p> <p style="padding-left: 20px;">10.3.3 Actions to Enforce Permanent Modifications 382</p> <p style="padding-left: 20px;">10.3.4 Failure to Honor Loan Modification and Forbearance Agreements Offered by a Prior Servicer 383</p> <p>10.4 Breaches of Oral Promises of Loss Mitigation 384</p> <p>10.5 Wrongful Denials and the Document Run-Around 384</p> <p style="padding-left: 20px;">10.5.1 Overview 384</p> <p style="padding-left: 20px;">10.5.2 Negligence 385</p> <p style="padding-left: 20px;">10.5.3 Breach of the Duty of Good Faith and Fair Dealing 385</p> <p style="padding-left: 20px;">10.5.4 Unfair and Deceptive Acts and Practices Claims 386</p> <p style="padding-left: 20px;">10.5.5 Wrongful Foreclosure 387</p> <p style="padding-left: 20px;">10.5.6 FDCPA and State Debt Collection Statutes 387</p> <p>10.6 HAMP-Specific Arguments 388</p> <p style="padding-left: 20px;">10.6.1 HAMP Review As a Prerequisite to Foreclosure 388</p> <p style="padding-left: 20px;">10.6.2 HAMP Due Process Rights 389</p> <p style="padding-left: 20px;">10.6.3 Third-Party Beneficiary Rights Under HAMP 389</p>
Chapter 11	<p>Litigating Mortgage Servicing Claims</p> <p>11.1 Introduction 391</p> <p>11.2 Gathering Information 391</p> <p style="padding-left: 20px;">11.2.1 Client Interview 391</p> <p style="padding-left: 20px;">11.2.2 Obtaining and Storing Documents 392</p> <p style="padding-left: 40px;">11.2.2.1 Overview 392</p> <p style="padding-left: 40px;">11.2.2.2 Document Sources 392</p> <p style="padding-left: 40px;">11.2.2.3 Storing Documents 392</p> <p style="padding-left: 20px;">11.2.3 Mortgage Loan Origination Documents 392</p> <p style="padding-left: 20px;">11.2.4 Appraisal 394</p> <p style="padding-left: 20px;">11.2.5 Servicing Records 394</p> <p style="padding-left: 40px;">11.2.5.1 Payoff Amount 394</p> <p style="padding-left: 40px;">11.2.5.2 Payment History 395</p> <p style="padding-left: 40px;">11.2.5.3 Contact History 395</p> <p style="padding-left: 40px;">11.2.5.4 Periodic Statements 395</p> <p style="padding-left: 40px;">11.2.5.5 Loss Mitigation Documents 395</p> <p style="padding-left: 40px;">11.2.5.6 Pooling and Servicing Agreement 396</p> <p style="padding-left: 40px;">11.2.5.7 Transfer of Servicing Notice 396</p> <p style="padding-left: 40px;">11.2.5.8 Bankruptcy Notices 396</p> <p style="padding-left: 20px;">11.2.6 Mortgage Transfer of Ownership Notices 396</p> <p style="padding-left: 20px;">11.2.7 Public Records 396</p> <p style="padding-left: 40px;">11.2.7.1 Land Records 396</p> <p style="padding-left: 40px;">11.2.7.2 Consumer Complaints 397</p> <p style="padding-left: 40px;">11.2.7.3 Newspaper Articles/Internet Searches 397</p> <p style="padding-left: 40px;">11.2.7.4 Corporate and Business Documents 397</p> <p style="padding-left: 40px;">11.2.7.5 Securities and Exchange Commission Documents 397</p>

11.2.7.6	Rating Agencies	397
11.2.7.7	Other Lawsuits	397
11.2.7.8	State Administrative Agencies	398
11.2.8	Information Obtained Through Discovery	398
11.2.8.1	List of Items to Request in Discovery	398
11.2.8.2	Confidentiality/Protection Orders	398
11.3	Applying Evidence Rules to Servicing Litigation Documents	399
11.3.1	Overview	399
11.3.2	Authentication of Paper Documents	399
11.3.3	Authentication of Electronically Stored Information	400
11.3.4	The Requirements for Personal Knowledge—Affidavits and Trial	400
11.3.5	The Business Records Exception to the Hearsay Rule	401
11.3.6	Judicial Notice and Presumptions	402
11.4	Choosing Defendants	402
11.5	Forum Selection	403
11.5.1	Federal Jurisdiction	403
11.5.1.1	In General	403
11.5.1.2	Supplemental Jurisdiction	404
11.5.1.3	Removal of Actions	404
11.5.2	Staying in State Court	404
11.5.3	Personal Jurisdiction over Out-of-State Defendants	404
11.6	Bond Requirements	405
11.7	Issues Posed by Separate Court Proceedings	405
11.8	Mandatory Arbitration Clauses	407
11.9	Tax Issues	408
11.10	Settlement Issues	409
11.11	Preemption of State Foreclosure or Servicing Laws	410
11.11.1	Introduction	410
11.11.2	Historical Context	411
11.11.3	Current Preemption Statutory Standard	411
11.11.4	The OCC’s Current Preemption Regulation	412
11.11.5	Applying the 2011 OCC Preemption Standard to Servicing and Foreclosure Laws	413
11.11.6	Pre-2011 HOLA Preemption of State Servicing and Foreclosure Laws	414
11.11.6.1	OTS Rule and Mortgage Servicing	414
11.11.6.2	Preemption of State Preforeclosure Requirements	416
11.11.7	Effect of Merger of Federal Savings Association with National Bank	418
11.12	Preemption Under the Federal Credit Union Act	419

Appendix A

Federal Mortgage Servicing Law		
A.1	Introduction	421
A.2	Selected Provisions of the Real Estate Settlement Procedures Act, 12 U.S.C. §§ 2601–2617	421
A.3	Regulation X	426
A.3.1	Regulations of the Real Estate Settlement Procedures Act (Regulation X) Effective January 10, 2014	426
A.3.2	Official Bureau Interpretations of Regulation X	452
A.4	Selected Servicing Provisions of the Truth in Lending Act	470
A.5	Regulation Z	473

A.5.1 Regulations of the Truth in Lending Act (Regulation Z), Effective January 10, 2014	473
A.5.2 Official Bureau Interpretations of Regulation Z	497
A.6 Selected Provisions of the Servicemembers Civil Relief Act	561

Appendix B

Selected Statutes and Regulations Pertaining to
Mortgages Held or Insured by the Federal Government

B.1 Introduction	569
B.2 Loans Insured by the Department of Housing and Urban Development (HUD)	569
B.2.1 Selected Statutes	569
B.2.2 Selected Regulations	572
B.2.3 HUD Handbooks and Mortgagee Letters	573
B.3 Loans Guaranteed by the Department of Veterans Affairs	574
B.3.1 Selected Statutes	574
B.3.2 Selected Regulations	579
B.3.3 VA Guaranteed Loans Circulars and Handbook	584
B.4 Loans Held by the Rural Housing Service (formerly the Farmers Home Administration)	584
B.4.1 Selected Statutes	584
B.4.2 Selected Regulations	591
B.5 Loans Guaranteed by the Rural Housing Service, Selected Regulations	594
B.6 Rural Development Administrative Notices, Letters and Handbooks	597

Appendix C

Agency Guidance, Consent Orders, Program
Guidelines, and Policy Statements

C.1 Introduction	599
C.2 Federal Financial Agencies' Statement on Loss Mitigation	599
C.3 FDIC Loan Modification Program	599
C.4 Making Home Affordable Modification Program	599
C.5 Interagency Review of Foreclosure Policies	599
C.6 National Mortgage Settlement	599
C.7 Government-Sponsored Entities (GSEs) Servicing Guidelines	600
C.8 CFPB Guidance on Servicing Transfers	600

Appendix D

Summary of State Mortgage Servicing, Payoff
Statement, and Mortgage Discharge Laws

D.1 State Mortgage Servicing Laws	601
D.2 Payoff Statement Requirements	622
D.3 Mortgage Discharge Laws	625

Appendix E

Foreclosure Prevention Practice Aids and Sample Mortgage Documents

E.1 Loan Modification Forms	629
E.1.1 Fannie Mae Borrower Solicitation Form and Streamlined Modification Solicitation Letter	629
E.1.2 Uniform Borrower Assistance Form	635
E.1.3 Hardship Documentation Requirements for Foreclosure Prevention Alternatives	639
E.1.4 Fannie Mae Loan Modification Agreement	639
E.1.5 Freddie Mac Loan Modification Agreement	642

E.2	Sample Requests for Information and Notices of Error under RESPA	644
E.2.1	Introduction	644
E.2.2	Sample Notice of Error and Request for Information Under RESPA for Use by Consumers	644
E.2.3	Sample Notice of Error and Request for Information Under RESPA for Use by Attorneys	644
E.2.4	Sample Notice of Error and Request for Information Under RESPA for a Client Who Has Filed for Bankruptcy.	645
E.2.5	Sample Request for Information About a Loss Mitigation Application . . .	646
E.2.6	Sample Notice of Error Under RESPA for Dual Tracking Violations	647
E.2.7	Sample Request for Information Under RESPA to Obtain Identity of Mortgage Owner	649
E.2.8	Limited Request for Information from Successor in Interest	649
E.2.9	Authorization of Release by Successor in Interest	650
E.2.10	Notice of Error by Successor in Interest and Request to Confirm Successor Status.	650
E.3	Sample Mortgage and Servicing Forms	651
E.3.1	Sample Mortgage.	651
E.3.2	Sample Promissory Note—Fixed Rate Mortgage	658
E.3.3	Sample Promissory Note—Adjustable Rate Mortgage	659
E.3.4	Sample Change Rate Notice for ARM.	661
E.3.5	Sample Annual Escrow Account Statement	661
E.3.6	Sample Notice As to Change of Servicer	663
E.3.7	Sample Notice As to Assignment, Sale, or Transfer of Ownership of Mortgage Loan.	664
Appendix F	Sample Pleadings	665
Appendix G	Glossaries	
G.1	Generalized Glossary	671
G.2	Specialized Glossary of Mortgage Servicing Terms	678
Appendix H	Helpful Websites.	683
	Index	685