



United States Department of Agriculture
Rural Development

JUL 11 2006

TO: USDA Rural Development
Single Family Housing Guaranteed Loan Holders and Servicers

FROM: Russell T. Davis
FUR Administrator
Housing and Community Facilities Programs

SUBJECT: Foreclosure Moratorium Extensions for Borrowers
Affected by Hurricanes Katrina, Rita and Wilma

1. **PURPOSE:** On June 7, 2006, USDA Rural Development announced the continuation of a foreclosure moratorium on Section 502 Guaranteed Loans located in the Presidentially-declared disaster areas that were impacted by Hurricanes Katrina, Rita and Wilma. This letter reinstates and extends the timeframe that borrowers have to correspond in writing to their lender or holder of their intentions for resolving the delinquency.
2. **EXTENDED MORATORIUM ON FORECLOSURES:** Although the loan holder is ultimately responsible for determining when to initiate foreclosure and for completing termination action, USDA Rural Development is extending the foreclosure moratorium restrictions outlined below until August 31, 2006.

This moratorium applies when initiating new foreclosures on loans affected by the hurricanes in the federally declared disaster areas, which FEMA designated as eligible for individual assistance. Eligible county information is available at:
http://www.fema.gov/press/2005/hurricane_season.shtm.

3. **EXTENDED MORATORIUM RESTRICTIONS:** The extended foreclosure moratorium is subject to the following restrictions:

On or before August 31, 2006, holders and servicers must perform the following actions:

- Assess the status, condition, and habitability of the mortgaged property;
- Establish contact with impacted borrowers and evaluate their short-term and long-term plans for housing, employment, home repairs and repayment of the mortgage debt;
- Complete a determination of the borrower(s) hazard and flood insurance coverage, property damage and available insurance recoveries; and

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- Confirm in writing that the borrower intends to work with the holder or servicer to develop and implement a plan to repair or rebuild the home and resolve the mortgage delinquency.

If, by August 31, 2006, the borrower provides a written commitment to work with the holder or servicer to develop and implement a plan to resolve the mortgage delinquency, the foreclosure moratorium will remain in effect until the approved plan to resolve the delinquent mortgage is executed.

There is no automatic extension of the foreclosure moratorium for properties located outside the individual assistance areas. However, if a holder or servicer has been unable to assess the condition of the property or contact the mortgagor in any of the counties designated as Presidentially-declared disaster areas, and they believe it is in the best interest of USDA Rural Development to delay the foreclosure or initiation of foreclosure until a loss mitigation evaluation can be completed, holders and servicers must contact its appropriate USDA Rural Development staff for approval.

Loan holders remain responsible for determining when to initiate a foreclosure, and for terminating a defaulted loan upon obtaining information that indicates that the cause of default is not the result of disaster related property damage or income disruption. Because of the national impact of the hurricanes, holders and servicers should continue to ensure that foreclosures scheduled during the moratorium are reviewed prior to sale to ensure that borrowers have not been affected significantly enough by the storms to justify postponement or cancellation. If a determination is made that the property or the borrower has been affected by a hurricane related circumstance, the initiation of foreclosure should be delayed during the moratorium period.

USDA Rural Development encourages efforts to help deserving borrowers maintain homeownership. The provisions of 7 CFR, section 1980.374, concerning the expeditious liquidation of loans, during the moratorium, will not apply. If a qualified loan is ultimately liquidated, the period of the moratorium will be considered as "Rural Development-Requested Forbearance" when processing a loss claim.

4. NEW HURRICANE RELIEF OPTION: On May 24, 2006, USDA Rural Development made available the Mortgage Recovery Advance program for existing 502 Guaranteed Loan Program borrowers who are in default on their mortgage loans due to impacts from the 2005 hurricanes Katrina, Rita, and Wilma. Mortgage Recovery Advances are designed to assist borrowers who do not currently have the ability to support their normal monthly mortgage obligation due to a verifiable loss of income, increase in living expenses attributable to the hurricanes, and who have exhausted other home retention loss mitigation options. The advance would be applied directly to the eligible borrower's delinquent mortgage installments in order to bring the loan into a current and performing status.

Under the Mortgage Recovery Advance program, a loan servicer may advance funds on behalf of a borrower in the amount necessary to reinstate the defaulted loan, and file a request to USDA Rural Development to be reimbursed for the amount of the advance.

All Mortgage Recovery Advances will require Agency approval prior to settlement. Each eligible advance that is executed by a loan servicer will entitle them to a one-time compensation payment of \$500.00 from Rural Development to defray expenses associated with the action.

For further information on the Mortgage Recovery Advance program contact:
Stuart Walden, Senior Loan Specialist, Section 502 Guaranteed Loan Program - STOP 0784 (Room 2250), U.S Department of Agriculture, Rural Housing Service, 1400 Independence Ave. SW., Washington, DC 20250-0784. Telephone: (202) 690-4507, Email: stuart.walden@wdc.usda.gov.

5. CONTINUED FORBEARANCE: USDA Rural Development encourages holders and servicers to continue to extend every possible forbearance to all borrowers in distress because of Hurricanes Katrina, Rita and Wilma for properties in the Alabama, Florida, Louisiana, Mississippi, and Texas eligible to receive individual assistance. Earlier letters (issued August 31, October 6, December 6, 2005, February 27, April 6, and June 7, 2006) provided similar guidance for the borrowers directly affected by the hurricanes, whose homes were severely damaged or destroyed by winds or flooding. The guidance was also extended for those whose workplaces were destroyed or were severely damaged by the hurricanes and flooding.
6. CREDIT REPORTING: In order to avoid damaging credit records of borrowers in the affected areas, USDA Rural Development encourages that servicers continue to suspend credit bureau reporting on loans securing affected properties and borrowers.
7. SERVICER DEFAULT AND QUARTERLY REPORTING: If servicer operations were directly impacted by either hurricane, the servicer may require consideration for late default or quarterly reporting to USDA Rural Development. The servicer should contact USDA Rural Development for further guidance.
8. DOCUMENTATION: To facilitate possible future loss claims actions, holders and servicers should fully document their servicing actions: borrower contacts; loss mitigation decisions; property inspection and preservation actions; and, hazard and flood insurance coverage determinations.
9. EXPIRATION: This notice expires on July 8, 2007.

Questions regarding the matters outlined in this letter may be addressed to Stuart Walden or Susanne Wilson, USDA Rural Development Single Family Housing Guaranteed Loan Division, at (202) 720-1452.

For additional information on USDA Rural Development hurricane relief measures, please visit the Agency home page: <http://www.rurdev.usda.gov>.