

(a) The Lender must make a reasonable attempt to contact the borrower if the payment is not received by the 20th day after it is due.

(b) The Lender must make a reasonable attempt to arrange and hold an interview with the borrower for the purpose of resolving the delinquent account before the loan becomes 60 days delinquent. Reasonable effort consists of not less than one letter sent to the borrower at the property address via certified mail or similar method which the borrower refuses to accept or fails to respond.

(c) If the Lender is unable to make contact with the borrower, the Lender must determine whether the property has been abandoned and the value of the security is in jeopardy before the account becomes two payments delinquent.

(d) When the loan becomes three payments delinquent, the Lender must report borrower delinquencies to credit repositories and make a decision with regard to liquidation of the account. The Lender may proceed with liquidation of the account unless there are extenuating circumstances.

§ 1980.372 Protective advances.

Protective advances must constitute an indebtedness of the borrower to the Lender and be secured by the security instrument. Protective advances are advances made for expenses of an emergency nature necessary to preserve or protect the physical security. Attorney fees are not a protective advance. The Lender will not make protective advances in lieu of an additional loan. In order to assure that a protective advance over \$500 will be included in the loss payment, Lenders are encouraged to obtain prior RHS approval.

§ 1980.373 Special loan servicing.

(a) *General.* As specified in this section, the Lender may reduce the interest rate to a level at or below the maximum allowable interest rate and extend the term of the loan up to 40 years from the date of loan modification (“extended-term loan modification”) and, if necessary, advance funds on behalf of a borrower to satisfy the borrower’s arrearage, pay legal fees and foreclosure costs related to a cancelled

foreclosure action, and reduce principal (“mortgage recovery advance”) (collectively, “special loan servicing”). Upon request, RHS will reimburse the Lender for eligible mortgage recovery advances under the partial loss claim procedures of this section. Lenders must receive written approval from RHS prior to servicing a borrower’s account with special loan servicing. The Lender must submit a servicing plan to RHS pursuant to § 1980.374 when a borrower’s account is 90 days delinquent and a method other than foreclosure is recommended to resolve the delinquency. Use of special loan servicing does not change the terms of the loan note guarantee.

(b) *Mortgage payment to income ratio.* This ratio is defined as the monthly mortgage payment (principal, interest, taxes, and insurance (PITI)) for the modified mortgage divided by the borrower’s gross monthly income. The servicing options in this section shall be used in the order established in paragraph (c) of this section to bring the borrower’s mortgage payment to income ratio as close as possible to, but not less than, 31 percent. Prior to servicing a borrower’s account with special loan servicing, the Lender must verify the borrower’s income. For borrowers who are employed by a private or public organization, the Lender shall verify the borrower’s income by examining documents such as the borrower’s current pay stub and most recent Internal Revenue Service Form W-2. For borrowers who are self-employed, the Lender shall verify the borrower’s income by examining documents such as the borrower’s profit and loss statements (for the year to date and the previous year) and the borrower’s signed tax return for the previous year.

(c) *Special loan servicing steps.* The Lender must consider loan servicing options in the order established by this paragraph (c).

(1) The Lender must consider the following traditional servicing options before considering special loan servicing.

(i) *Repayment agreement.* A repayment agreement is an informal forbearance plan lasting three months or less. An informal forbearance plan is the best