

## .05 INITIATION OF FORECLOSURE

After all collection efforts have been exhausted, the Servicer is to forward a recommendation to AHFC of the foreclosure action required. The Servicer is not to suspend any portion of the collection effort once a foreclosure action is approved and is encouraged to continue efforts to enter into a repayment plan with the borrower(s).

The foreclosure actions available to the Servicer include the following.

### A. Deed-in-Lieu of Foreclosure (DIL)

A deed-in-lieu of foreclosure must never be a substitute for sound collection or servicing practices. The Servicer may recommend acceptance of a voluntary deed-in-lieu of foreclosure if the Servicer has determined the default was caused by hardship beyond the borrower's control, and listing the property for sale at market value has not resulted in any reasonable offers.

The Servicer's recommendation for a deed-in-lieu of foreclosure must defend why it is the best course of action to take, why it is in AHFC's best interest to accept, and address the monetary detail of why it should be approved. The borrower(s) must be aware that acceptance of a deed-in-lieu of foreclosure may require payment of the costs related to the action, or payment of a cash contribution. The borrower(s) must be able to convey acceptable marketable title of the property to AHFC. **The Servicer should not delay or cease a foreclosure action in order to request a deed-in-lieu of foreclosure.**

If the value of the property is insufficient to liquidate the debt, the Servicer should request the borrower(s) execute a Confession of Judgment before Action, for the difference. The borrower(s) must be willing and have the capacity to pay the Confession. The amount of the Confession will be treated as the borrower's participation toward the transaction.

The complete Deed in Lieu of Foreclosure package is to be submitted simultaneously to AHFC and the Mortgage Insurer or Guarantor within 5 days of receipt by the Servicer.

1. Documentation to be included with the [Form SER-71](#) submission:
  - a. DIL/Voluntary Repossession Addendum ([Form SER-71ADD1](#)).
  - b. Title report.
  - c. Two Broker's Opinions of Value (BOV's) that include an interior inspection (In areas where only one broker is

available, the Servicer may request a waiver of the second BOV or may substitute an appraisal).

- d. Insurer/guarantor authorization.
- e. Homeowner's Association's written verification that condo dues are paid current, if applicable.
- f. Date property will be vacant.
- g. HOF excess due, if applicable.
- h. Documentation of marketing efforts.
- i. Borrower's letter explaining the need for a DIL.
- j. Current and Completed Financial Analysis ([Form SER-71B](#)) on all liable borrowers.
- k. Loss Computation Worksheet.
- l. Contribution borrower has pledged, if none, explanation why.

**Note:** In addition to the financial analysis, all liable borrowers should submit signed copies of the last two (2) years federal income tax returns and a current pay stub or other current income verification. If self-employed, a copy of the profit and loss statement should be obtained.

**The Servicer should include any additional information it possesses that supports the collection activity recommendation.**