

.10 DELINQUENT LOAN MODIFICATION

An AHFC loan may be eligible for a loan modification. Not all loans pledged to bonds are eligible for modifications; therefore, **the Servicer is to contact AHFC to determine eligibility prior to offering a modification to a borrower.** The Servicer may consider modification of a loan to cure a delinquency if the modification will result in a reasonable expectation that the borrower(s) will be able to maintain the loan in a current status. All modifications require the written approval of AHFC and the primary insurer or guarantor.

A. Submission to AHFC

The Servicer's submission of a modification recommendation should include an explanation of why the borrower(s) should be granted relief, the terms of the proposed modification, a detailed analysis of why the modification will prevent the loan from going back into default again, and an explanation as to why a forbearance and repayment plan is not feasible to resolve the delinquency.

B. Modification Circumstances

Examples of modification circumstances may include:

1. The borrower's income has been affected permanently by an accident, illness, or death of a principal wage earner in the family.
2. The borrower's income was reduced or eliminated altogether for a temporary period beyond the control of the borrower(s), and current income is still too low to keep the loan current on an ongoing basis.
3. When the Servicer feels that changing the terms of the loan would not only cure the present delinquency but also prevent future delinquencies.

C. Documentation

Documentation to be included with the Notification of Recommended Action ([Form SER-71](#)) submission:

1. Modification Addendum ([Form SER-71ADD2](#))
2. Servicer's letter specifying the terms of the modification, including an itemized breakdown of the amount of capitalization, interest rate

reduction, P&I reduction and extension of terms, along with its analysis of the borrowers financial statement.

3. Borrower's letter explaining the need for modification.
4. Borrower's financial statements, including tax returns and pay stubs ([Form SER-71B](#)).

D. Approval

Upon approval of the modification, the Servicer must do the following:

1. Obtain an update from the title insurance company to ensure that the modified mortgage loan retains its first lien position and is fully enforceable. If AHFC will not remain in its lien position, the loan cannot be modified. It is the Servicer's responsibility to obtain a Subordination Agreement and/or other required documentation.
2. Prepare a Modification Agreement ([Form SER-57](#)) amending the Note and/or loan documents, as applicable, for signing by the borrower(s), the Servicer, and AHFC.
3. The Servicer is strongly urged to contact AHFC for verification of the terms of the Modification Agreement ([Form SER-57](#)) prior to the borrower signing the modification agreement.
4. The original modification agreement must be sent to AHFC's Servicing Department.