

SAMPLE / ILLUSTRATIVE DOCUMENT — FICTIONAL SERVICER. This is the **remediated ("after")** version of the Cardinal Point FHA loss-mitigation P&P, revised to conform to **FHA Mortgagee Letter 2025-06** (Modifications to FHA's Loss Mitigation Options; permanent framework effective **February 2, 2026**) and the modernized Handbook 4000.1 home-retention waterfall. "Cardinal Point Mortgage Servicing, LLC" is not a real company; the content is original and not drawn from any firm's proprietary materials. Regulatory figures are grounded in the ML 2025-06 / Handbook 4000.1 rule kit. **Working draft for compliance/attorney review — not legal advice.**

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FHA Default Servicing & Loss Mitigation — Policies and Procedures

Servicer	Cardinal Point Mortgage Servicing, LLC ("Cardinal Point" or the "Servicer")
Policy No.	SVC-LM-006
Applies to	FHA-insured Title II forward mortgages serviced by Cardinal Point
Effective Date	February 2, 2026
Last Revised	February 2, 2026 (supersedes SVC-LM-005, rev. June 2024)
Policy Owner	SVP, Default Servicing
Approved By	Servicing Compliance Committee
Review Cycle	Annual, or upon issuance of a HUD Mortgagee Letter affecting loss mitigation

Why this revision (SVC-LM-006). FHA ML 2025-06 replaced the legacy home-retention framework with a single consolidated waterfall built around the **Payment Supplement, Partial Claim, and Loan Modification**, retired **FHA-HAMP** (and its 31% targeted-payment math), sunset the **COVID-19 Recovery** option set, and streamlined borrower qualification through the **Borrower Affordability Attestation**. This version conforms the P&P to that framework. A clause-level change log is at Section 20.

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1. Purpose

This Policy establishes Cardinal Point's requirements for servicing FHA-insured mortgages in default, for evaluating borrowers for FHA Loss Mitigation, and for administering home-retention and home-disposition options in compliance with HUD requirements and applicable federal law. Its objective is to give every eligible borrower every reasonable opportunity to cure a delinquency and avoid foreclosure while protecting the FHA insurance fund and Cardinal Point's investors.

2. Scope

This Policy applies to all Cardinal Point personnel and to any subservicer or vendor performing default-servicing functions on FHA-insured Title II single-family (1–4 unit) forward mortgages. Home Equity Conversion Mortgages are governed by a separate policy (SVC-LM-009).

Consider all borrower types for all options. Consistent with Handbook 4000.1 III.A.2.h, the Servicer shall **consider Owner-Occupant Borrowers and Non-Occupant Borrowers for all Loss Mitigation Options**. No home-retention option in this Policy is conditioned on owner-occupancy except where HUD's option-specific rule expressly requires it.

3. Governing Authority

The Servicer shall service FHA-insured mortgages in compliance with, at a minimum: - **24 CFR Part 203, Subpart C** (Servicing Responsibilities), including §203.604 (face-to-face interview), §203.605 (loss mitigation performance), §203.606 (pre-foreclosure review). - **HUD Single Family Housing Policy Handbook 4000.1, Section III** (Servicing and Loss Mitigation), as modified by **ML 2025-06**, and **Appendix 4.0** (Home Retention Option calculations). - **Regulation X, 12 CFR §§ 1024.38–1024.41** (general servicing policies, continuity of contact, early intervention, loss mitigation procedures). - Applicable **Mortgagee Letters**, including **ML 2024-02 (Payment Supplement)** and **ML 2025-06 (Modifications to FHA's Loss Mitigation Options)**. - **FCRA, SCRA, the U.S. Bankruptcy Code**, and applicable state law.

Where this Policy and a HUD requirement conflict, the HUD requirement controls, and the discrepancy shall be escalated to Servicing Compliance for remediation.

4. Definitions

- **Default / Delinquency** — A mortgage is delinquent when a scheduled payment is not received by its due date; for HUD reporting it is in Default at 30 days past due.
- **Arrearage** — Unpaid principal and interest, plus Servicer advances for taxes, insurance, and eligible corporate advances; excludes late charges, which are not capitalized.
- **Complete Loss Mitigation Application** — An application for which the Servicer has all information and documentation needed to evaluate the borrower for every available option. Under the modernized framework, the **Borrower Affordability Attestation** supplies affordability confirmation without full income documentation for the streamlined options that permit it.
- **Borrower Affordability Attestation** — The borrower's attestation that the resulting monthly payment (or the Repayment Plan installment) is affordable. The Servicer must obtain the Attestation where the option requires it, in the manner permitted by Handbook 4000.1 III.A.2.i.
- **Market Rate** — The Freddie Mac Primary Mortgage Market Survey (PMMS) rate for a comparable term as of the date the option is calculated, rounded per HUD requirements.
- **Partial Claim** — An interest-free subordinate lien advanced from FHA funds to reinstate a delinquent mortgage and/or reduce the payment, evidenced by a HUD subordinate promissory note and mortgage. The **cumulative** value of all partial claims must not exceed **30% of the unpaid principal balance as of the date of the earliest Default resolved by a partial claim**, fixed for the life of the loan.
- **Payment Supplement** — A home-retention option that uses partial-claim funds to reduce the borrower's monthly principal-and-interest payment for a **36-month** term without changing the note rate or maturity, after which the payment steps back to the pre-supplement amount.
- **Repayment Plan** — A plan under which the delinquency is repaid in equal monthly installments, in addition to the Mortgage Payments, over a term **not to exceed 24 months**.
- **Trial Payment Plan (TPP)** — A period (generally three months) during which the borrower makes agreed payments to demonstrate ability to perform before a permanent option is finalized.

5. Roles and Responsibilities

- **Loss Mitigation Specialists** — Manage collection, borrower solicitation, application intake, evaluation, option calculation, and administration.
- **Single Point of Contact team** — Provide continuity of contact under §1024.40.
- **Foreclosure team** — Manage referral, dual-tracking holds, and reasonable-diligence timelines.
- **Loss Mitigation Manager** — Approves options within delegated authority; approves documented exceptions and any Outside-of-the-Waterfall Loan Modification per Section 10.
- **Servicing Compliance** — Monitors regulatory change, performs quality control, and owns remediation of exceptions.

6. Early Default Intervention and Collections

6.1 The Servicer shall establish live contact with a delinquent borrower **no later than the 36th day** of delinquency and shall promptly inform the borrower that loss mitigation options may be available (§1024.39(a)). 6.2 The Servicer shall provide the **written early-intervention notice no later than the 45th day** of delinquency and again at least once per 180-day period the borrower remains delinquent (§1024.39(b)). 6.3 The Servicer shall use HUD's **Early Default Intervention (EDI)** tools and make the collection contacts and delinquency notices required by Handbook 4000.1 Section III.A, engaging borrowers as early as practicable to maximize home-retention outcomes.

7. Face-to-Face Interview (24 CFR 203.604)

The Servicer shall conduct a face-to-face interview with the borrower, or make a reasonable effort to arrange one, **before three full monthly installments are unpaid**, unless an exception applies (e.g., the property is not within 200 miles of the Servicer or a servicing branch, the borrower does not occupy the property, or the borrower has clearly stated they will not cooperate). Reasonable effort shall include at least one certified-mail letter and at least one visit to the property.

8. Single Point of Contact (12 CFR 1024.40)

The Servicer shall assign SPOC personnel by the date the written early-intervention notice is provided and shall ensure such personnel can perform the functions in §1024.40(b), including advising the borrower of available options, application status, applicable timelines, and appeal rights.

9. Loss Mitigation Application Handling and the Borrower Affordability Attestation (12 CFR 1024.41)

9.1 Within **5 days** of receiving a loss mitigation application, the Servicer shall acknowledge receipt in writing and state whether the application is complete or incomplete; an incomplete notice shall list the specific documents needed and a reasonable due date. 9.2 For a **complete application received more than 37 days before a foreclosure sale**, the Servicer shall evaluate the borrower for **all** available options and provide a written determination **within 30 days**. 9.3 **Borrower Affordability Attestation**. Where an option in Section 10 permits streamlined qualification, the Servicer shall obtain the Borrower Affordability Attestation in the manner permitted by Handbook 4000.1 III.A.2.i, in lieu of full income documentation, and shall document it in the servicing file. 9.4 The Servicer shall maintain policies and procedures reasonably designed to ensure personnel can timely retrieve the complete servicing file and loss-mitigation record, and shall document all borrower contacts and evaluations.

10. FHA Loss Mitigation Evaluation Waterfall

10.1 Evaluation Timing and Foreclosure Trigger

The Servicer shall evaluate every defaulted borrower using **HUD's single consolidated Loss Mitigation Option Waterfall** and the requirements for the specific options, and shall **complete the evaluation before four full monthly installments are due and unpaid**. The Servicer shall **consider Owner-Occupant and Non-Occupant Borrowers for all options**, and **shall not condition any option on a borrower cash contribution** or on the payment of fees or charges. The Servicer shall not refer a loan to foreclosure until (a) the borrower has been evaluated for loss mitigation and (b) the mortgage is at least **three full monthly payments** unpaid, consistent with HUD reasonable-diligence timelines and §1024.41(f).

10.2 Home-Retention Waterfall (evaluate in order)

Evaluate the borrower for each home-retention option in the following order; offer the first option for which the borrower qualifies and that achieves the required outcome.

(a) Forbearance (short-term bridge). A forbearance plan for a temporary hardship, documented in the servicing system, used to bridge the borrower to a permanent option. (Replaces the legacy Informal/Formal/Special-Forbearance-Unemployment tiers with the single modernized Forbearance construct.)

(b) Repayment Plan. Where the borrower affirms the installment is affordable, cure the Arrearage in equal monthly installments in addition to the Mortgage Payment. - *Requirements*: (1) obtain the Borrower Affordability Attestation; (2) ensure the plan term **does not exceed 24 months**; (3) repay the delinquency in **equal monthly installments in addition to the Mortgage Payments**; (4) provide the borrower the **Repayment Plan Agreement at least 15 Days before the first installment is due** (borrower signature not required).

(c) Standalone Partial Claim. Reinstate the Arrearage where the borrower can resume the existing contractual payment. - *Requirements*: (1) confirm the borrower can resume the current payment; (2) confirm cumulative partial claims will **not exceed 30% of UPB**; (3) advance a partial claim equal to the eligible Arrearage (waive late charges); (4) execute and record the HUD subordinate note and mortgage; (5) resume the original payment.

(d) Payment Supplement (ML 2024-02). Reduce the monthly payment using partial-claim funds without changing the note rate or maturity. - *Requirements*: (1) confirm remaining partial-claim capacity under the 30% cap; (2) using partial-claim funds, **reduce the monthly principal and interest by up to 25% for a 36-month term**; (3) do not change the interest rate or maturity; (4) at the end of the 36-month term, the payment steps back to the pre-supplement amount; (5) obtain the Borrower Affordability Attestation.

(e) Loan Modification. Recast the mortgage to achieve an affordable payment. - *Requirements*: (1) capitalize eligible Arrearage (waive late charges); (2) set a fixed rate at the Market Rate; (3) amortize over up to **360 months**; (4) target a payment achieving a **minimum 25% reduction (and not less than 15%) to the P&I portion** of the monthly payment; (5) where a standalone modification cannot reach the target, apply a **partial claim (within the 30% cap)** in combination; (6) where 360 months cannot reach the target, extend the term to **480 months (40-year modification)**; (7) obtain the Borrower Affordability Attestation.

(f) Outside-of-the-Waterfall Loan Modification (OWL). For a borrower whose circumstances the standard waterfall does not resolve, evaluate an OWL under Handbook 4000.1 III.A.2.i, with the business and regulatory rationale documented and approved by the Loss Mitigation Manager or above.

10.3 Home-Disposition Options

Where home retention is not feasible, evaluate in order:

(a) Pre-Foreclosure Sale (PFS / short sale) — - *Variants:* (i) **Streamlined PFS for servicemembers with PCS orders** (no financial review); (ii) **Standard PFS** (documentation of hardship and inability to sustain the mortgage with a home-retention option); (iii) **PFS of damaged property**; (iv) PFS involving corporate or partnership borrowers. - *Steps:* obtain an appraisal/valuation, establish the minimum acceptable net proceeds, market the property, review offers against HUD parameters, and pay the owner-occupant relocation incentive at closing where eligible.

(b) Deed-in-Lieu of Foreclosure (DIL) — offered after a reasonable PFS marketing effort where title is marketable; may include a cash-for-keys/relocation incentive.

10.4 Exceptions and Approval Authority

Any deviation from the eligibility criteria or calculation steps in this Section requires a documented exception approved by the Loss Mitigation Manager (or above, per the delegation-of-authority matrix), with the business and regulatory rationale recorded in the loan file. Exceptions shall be reported to Servicing Compliance monthly.

11. Trial Payment Plans

For options requiring a TPP, the Servicer shall place the borrower on a TPP (generally three monthly payments) and, upon successful completion, execute the permanent option. The Servicer shall not deny a permanent modification to a borrower who timely makes all TPP payments and remains eligible.

12. Partial Claim Documentation

For any option using a partial claim, the Servicer shall obtain the borrower's executed **HUD subordinate promissory note and subordinate mortgage**, record the subordinate mortgage in the applicable jurisdiction, and transmit documentation to HUD within HUD's required time frame. The partial claim is interest-free and payable on maturity, payoff, or sale of the first mortgage. The Servicer shall track cumulative partial-claim usage against the **30% of UPB** ceiling for the life of the loan.

13. Borrower Notification and Appeals

13.1 The Servicer shall provide a written decision for each option evaluated, stating the option offered or the specific reason(s) for denial. 13.2 Where a complete application was received more than 90 days before a scheduled foreclosure sale and a loan-modification option is denied, the Servicer shall give the borrower **14 days** to appeal and shall have different personnel review the appeal (§1024.41(h)).

14. Foreclosure Referral and Dual-Tracking

14.1 The Servicer shall not make the first notice or filing for foreclosure until the mortgage is **more than 120 days** delinquent (§1024.41(f)). 14.2 If a borrower submits a complete application before referral or more than 37 days before a sale, the Servicer shall not refer to foreclosure or conduct a sale until the borrower has been evaluated and any appeal resolved (§1024.41(g)). 14.3 The Servicer shall maintain a documented **loss-mitigation hold** to prevent foreclosure activity during evaluation.

15. Default Reporting and Time Frames

15.1 The Servicer shall report the status of each defaulted FHA mortgage to HUD's **Single Family Default Monitoring System (SFDMS)** each reporting cycle, using the correct default/loss-mitigation status codes (including the codes for the modernized option set), by HUD's monthly reporting deadline. 15.2 The Servicer shall meet HUD's time frames for evaluating loss mitigation before four installments are due and unpaid (§10.1), delivering the Repayment Plan Agreement at least 15 Days before the first installment (§10.2(b)), executing and transmitting partial-claim documents (§12), and initiating and completing foreclosure with reasonable diligence.

16. Property Preservation and Occupancy Inspections

The Servicer shall perform occupancy inspections beginning when a mortgage becomes 45 days delinquent and at HUD-required intervals thereafter, secure and preserve vacant or abandoned properties, and maintain conveyance condition consistent with Handbook 4000.1 Section III.

17. Fees and Corporate Advances

The Servicer shall assess only fees permitted by the mortgage, HUD, and applicable law; shall not charge the borrower for a loss-mitigation review; shall not condition a loss-mitigation option on a borrower cash contribution; and shall waive late charges in connection with a completed loss-mitigation option.

18. Overlays — SCRA, Bankruptcy, Successor-in-Interest, State

The Servicer shall apply SCRA protections (including the 6% rate cap and foreclosure protections) to eligible servicemembers, comply with the automatic stay and applicable procedures for borrowers in bankruptcy, confirm and communicate with confirmed successors in interest (§§1024.30(d), 1024.38(b)(1)(vi)), and apply any state-specific loss-mitigation or foreclosure-mediation requirements applicable to the property jurisdiction.

19. Language Access

The Servicer shall maintain a language-access approach consistent with Handbook 4000.1 (including making the Mortgagee's translated documents and oral-interpretation resources available to Limited-English-Proficiency borrowers where required) so that borrower engagement and loss-mitigation solicitation are meaningfully accessible.

20. Recordkeeping, Quality Control & Revision History

20.1 The Servicer shall retain the complete loss-mitigation record for the life of the loan plus the HUD-required retention period. Servicing Compliance shall test a monthly sample of defaulted loans for timely solicitation, evaluation, notification, dual-tracking compliance, exception documentation, Affordability-Attestation capture, and SFDMS accuracy, and shall track remediation to closure.

20.2 Revision History

Version	Date	Summary
SVC-LM-004	Mar 2024	Added Payment Supplement (ML 2024-02) and 40-Year Standalone Modification; refreshed §1024.41 timelines.
SVC-LM-005	Jun 2024	Added per-option eligibility/calculation steps and exception controls; corrected partial-claim cap to 30% of UPB.
SVC-LM-006	Feb 2026	Conformed to ML 2025-06: retired FHA-HAMP and the 31% targeted-payment math; sunset COVID-19 Recovery options; replaced Informal/Formal/Special-Forbearance-Unemployment tiers with a single Forbearance construct; adopted the consolidated home-retention waterfall (Forbearance → Repayment Plan → Standalone Partial Claim → Payment Supplement → Loan Modification → OWL); added the Borrower Affordability Attestation , the 25% (15% floor) P&I-reduction target , the 24-month Repayment Plan cap and 15-day agreement delivery , Early Default Intervention tooling, and a Language Access section; made explicit that all borrower types are considered for all options and that no option may be conditioned on a cash contribution .

Appendix — Change map to the ML 2025-06 gap analysis

Gap-analysis finding (prior P&P)	Resolution in this version
FHA-HAMP framework + 31% target math (deleted by ML)	Removed; replaced by Loan Modification (§10.2(e)) with the 25% P&I-reduction target
Special Forbearance–Unemployment (deleted)	Removed; single Forbearance construct (§10.2(a))
Informal / Formal forbearance tiers (superseded)	Removed; single Forbearance construct (§10.2(a))
Old multi-step FHA-HAMP-terminating waterfall	Replaced by the consolidated waterfall (§10.2)
Owner-occupant gating (standing conflict)	§2 and §10.1 — consider Owner-Occupant and Non-Occupant for all options
Conditioning options on cash contribution (conflict)	§10.1 and §17 — no option conditioned on a cash contribution
COVID-19 Recovery option set (sunset)	Removed; folded into the permanent options
Repayment Plan / Affordability Attestation / EDI / Language Access (net-new)	Added at §9.3, §10.2(a)–(b), §6.3, §19

Grounded in the ML 2025-06 / Handbook 4000.1 rule kit. Illustrative sample — "Cardinal Point Mortgage Servicing" is fictional. Working draft for compliance/attorney review — not legal advice.