

HUD Implements 40-Year Loan Modification Option

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On March 8, 2023, the Department of Housing and Urban Development (HUD) [published a final rule](#) allowing mortgagees to modify a Federal Housing Administration (FHA) insured mortgage by recasting the total unpaid loan for a new term limit of up to 480 months—up from the previous limit of 360 months—to cure a borrower’s default. The effective date of the final rule is May 8, 2023.

By increasing the maximum term limit to 480 months, mortgagees will be able to further reduce a borrower’s monthly payment, thereby spreading the outstanding balance over a longer period. This should provide more borrowers with FHA-insured mortgages with the opportunity to retain their homes after default. Further, HUD recognizes that, given the current interest rate environment, increasing rates may decrease the effectiveness of a modification in providing payment reduction—especially when the modified loan might be at a higher rate than the original loan. However, HUD believes rising rates make the forty-year loan modification option critically important because a thirty-year modification may not sufficiently decrease a borrower’s monthly payment to an amount low enough for the borrower to keep the home.

While the forty-year mortgage remains rare, it is becoming more commonly recognized in the mortgage industry, including by Fannie Mae and Freddie Mac. As such, HUD also notes that the final rule aligns the FHA with modification options available to borrowers with mortgages backed by Fannie Mae and Freddie Mac, both of which already provide a forty-year loan modification option.

Concurrent with this final rule, HUD also published [Mortgagee Letter 2023-06](#), which further clarifies the pending changes to the FHA Single Family Housing Policy Handbook.

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Devin Leary-Hanebrink

Jim Milano