MORTGAGE BANKERS ASSOCIATION

June 12, 2023

The Honorable Julia Gordon
Assistant Secretary for Housing and Federal Housing Commissioner
Federal Housing Administration
U.S. Department of Housing and Urban Development
451 7th Street, SW, Rm 9132
Washington, D.C. 20410-0001

RE: FHA Info 2023-41; Draft Mortgagee Letter, Modifications to FHA Home Equity Conversion Mortgage (HECM) Requirements Related to Secretary Payment of Borrower Disbursements Due to Mortgagee Default

Dear Commissioner Gordon,

The Mortgage Bankers Association (MBA)[1] appreciates the opportunity to comment on the Federal Housing Administration's (FHA) draft mortgagee letter, *Modifications to the Home Equity Conversion Mortgage (HECM) Requirements Related to Secretary Payment of Borrower Disbursements Due to Mortgagee Default*. MBA supports FHA's proposal to revise the agency's investigation requirements regarding whether a mortgagee can meet their disbursement obligation to HECM borrowers. MBA also applauds efforts by FHA to require a mortgagee who failed to make a distribution obligation to provide information to FHA.

The provisions outlined in the draft ML are important steps to providing stability to the senior citizens that rely on this product as well as the HECM secondary market. Specifically, FHA proposes to expand the circumstances when FHA can investigate anticipated or actual mortgagee default on the obligation to make borrower disbursements. The mortgagee letter also proposes requiring mortgagees to provide FHA with borrower payment information

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,100 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

when FHA determines a mortgagee will default on its payment obligations. This is likely to minimize delays in borrower receipt of eligible payments under their HECM loan.

MBA recommends that FHA take additional steps to further FHA's policy objectives of strengthening HECM market stability and reducing costs to the Mutual Mortgage Insurance Fund (MMI Fund). As expressed in MBA's April 13 letter in response to FHA's Info 2023-25, FHA should:

1. Accept the assignment of all HECMs immediately after the Ginnie Mae 98% buyout; and
2. Accept loans that become due and payable or delinquent after reaching Maximum Claim Amount (MCA) as an assignable Buyout.

Accept the assignment of all HECMs immediately after the Ginnie Mae Buyout.

The assignment of all HECMs should be acceptable to FHA immediately after the Ginnie Mae mandated 98% buyout rather than after servicers resolve any loans in default. This would eliminate the prohibitive costs of holding non-assignable loans and reduce the costs of holding assignable loans by reducing the time it takes for reimbursement. Shifting the administrative burden of overseeing servicing on loans in which borrowers are behind on their taxes or insurance, have vacated their property, or have passed away will increase the administrative costs to the FHA. However, FHA could mitigate those costs by holding the loan on their balance sheet but allowing the servicing rights to remain with the existing servicer. We recognize that whether this action comes at a net cost may ultimately limit what the FHA has the authority to do. Under federal Credit Reform Act guidelines, the FHA would need an appropriation before taking any steps that would increase the costs on loans already insured. FHA will need to determine what mix of policy options will be cost neutral or better.

This would also immediately relieve warehouse capacity constraints and negative carry for servicers. It would also improve the health of the MMI Fund because the FHA earns the note rate – which is higher than the government's cost of funds – for a more extended period while servicers continue to meet all the rules/timelines as they are currently required to do.

Accept loans that become due and payable or delinquent after reaching MCA as an assignable buyout.

FHA should accept loans that become due and payable or default after reaching 98% MCA as an assignable buyout. When a borrower has vacated their home or passed away, servicers are forced to foreclose on the estate, sell the house, and then file a claim with the FHA for the cost of buying the loan out of the pool. In many cases, this process can take years to resolve, during which time the loan sits on the servicer's balance sheet while the servicer covers the taxes, insurance, and maintenance costs. This change would reduce liquidity strains for servicers and limit unnecessary and disruptive servicing transfers that could confuse borrowers and their heirs.

MBA greatly appreciates FHA's continued use of the FHA Drafting Table and the opportunity to comment on the FHA Info 2023-41. Should you have questions or wish to discuss this issue further, please contact John McMullen at jmcmullen@mba.org.

Sincerely,

Pete Mills
Senior Vice President
Residential Policy and Strategic Industry Engagement
Mortgage Bankers Association