MORTGAGE BANKERS ASSOCIATION

American Bankers Association®

NMSA NATIONAL MORTGAGE SERVICING ASSOCIATION

December 20, 2024

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

RE: Draft Single Family Handbook Policy Handbook (Handbook 4000.1): Servicing and Loss Mitigation, and Claims and Disposition sections, Appendix 4.0, and the Single-Family Default Monitoring System Reporting Codes and Reporting Data Elements

Dear Commissioner Gordon:

Thank you for the opportunity to comment on the Federal Housing Administration's (FHA) proposal to update the Servicing and Loss Mitigation, Claims, and Dispositions sections and Appendix 4.0 of the Single-Family Housing Policy Handbook. The Mortgage Bankers Association (MBA)[1], American Bankers Association (ABA)[2], and National Mortgage Servicing

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1 The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 275,000 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 2,000 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.

2 The American Bankers Association is the voice of the nation's $23.9 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard $18.8trillion in deposits and extend $12.5 trillion in loans.

Association (NMSA)[3] welcome FHA's proposal to establish a permanent loss mitigation waterfall after the upcoming COVID-19 Recovery Loss Mitigation Waterfall (COVID-19 Waterfall) expires **on April 30, 2025**. To that end, we stress the importance of FHA finalizing its proposal and implementing the necessary improvements promptly before publishing effective policy guidance.

FHA's proposal reflects much of the feedback that MBA previously provided, advancing two policy objectives that have guided its longstanding advocacy.[4] First, as FHA's proposal accompanies the expiration of FHA-HAMP, a full-document review, the use of streamlined loss mitigation solutions with targeted payment reduction is critical to ensure sustainable borrower performance and positive outcomes to avoid foreclosure. Additionally, FHA's proposal creates a durable loss mitigation waterfall that provides borrowers and mortgage servicers with effective tools to help distressed borrowers in any market environment, regardless of a borrower's financial hardship. We support a permanent loss mitigation waterfall that appropriately balances the shared interests of both borrower's and servicers' in preserving affordable homeownership and FHA's statutory obligation to protect the Insurance Fund.

Nonetheless, while FHA's proposal thoughtfully considers the lessons learned from the COVID-19 pandemic, FHA should make additional improvements to its proposed guidance before mortgage servicers adjust their operations ahead of a mandatory compliance deadline. We believe it is imperative to simplify and clarify parts of FHA's proposal before publishing final guidance to reduce the risk of noncompliance and ensure a positive borrower loss mitigation experience. The attached Excel Worksheet includes the Associations complete list of comments and recommendations.

As an initial matter, FHA must align the effective date of the Handbook updates with the current expiration date of the COVID-19 Waterfall. To do so, we recommend that FHA extend the COVID-19 Waterfall to **February 1, 2026,** to provide sufficient time for servicers to implement FHA's proposal and ensure a smooth transition to permanent guidance. FHA's proposal is a comprehensive update to the Servicing Handbook affecting all areas of servicing operations and notably follows servicers exhaustive implementation of complex loss mitigation guidance in the Payment Supplement, which is effective January 1, 2025, and FHA's recent announcement of Mortgagee Letter 2024-24, *Modernization of Engagement with Borrowers in Default*, which is effective June 30, 2025. An extended runway appropriately allows distressed borrowers to continue to avail themselves of the flexibilities provided by the COVID-19 Waterfall while mortgage servicers continue to adjust their systems and processes.

Accordingly, FHA must also:

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[3] National Mortgage Servicing Association (NMSA) is a nonpartisan organization with member participation representing the nation's leading mortgage servicing organizations. NMSA was formed for the purpose of effecting progress and change while addressing key challenges and opportunities before the mortgage servicing industry. By bringing together decision makers and thought leadership, from across the nation, the NMSA drives the conversation on shaping the American housing industry for the benefit of homeowners.

[4] MBA Letter to FHA on Permanent Loss Mitigation Waterfall | MBA

1. **Eliminate the Hardship Documentation Table on Pages 50 and 51.** While we welcome efforts to align guidance with the Fannie Mae 710 form, permitting a Borrower Affordability Attestation but requiring additional documentation for certain hardships creates an inconsistent policy and process and a poor borrower experience.

2. **Eliminate the monthly P&I comparison between a 30-year Standalone Modification if it reduces the P&I portion of the monthly payment by both $20 and 5% and a Standalone Partial Claim.** Such a requirement increases the complexity of Waterfall operations and undermines the utility of incorporating a targeted payment reduction to streamline decision-making. Most importantly, we strongly support the preservation of the Standalone Partial Claim as the first option in the post-forbearance Waterfall.

3. **Repropose the Equity Saver Sale (ESS) to the Drafting Table as a separate Mortgagee Letter.** The new ESS will greatly benefit from further development from interested stakeholders, making execution of the ESS more practical. The Associations support efforts to provide a marketing period for borrowers with equity to avoid foreclosure. However, FHA should work with stakeholders to define “sufficient equity,” for instance, or how the ESS can appropriately fit into FHA’s pre-foreclosure disposition strategy. Clarity on equity determination is crucial for the success of these changes.

Thank you for considering these comments. Please contact Brendan Kelleher at Bkelleher@mba.org if you would like to discuss these issues further.

Sincerely,

Mortgage Bankers Association
American Bankers Association
National Mortgage Servicing Association