Improving Default Mortgage Servicing Processes

OPPORTUNITIES FOR ALIGNMENT AND STANDARDIZATION
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Executive Summary

Following the foreclosure crisis of 2008, federal foreclosure prevention programs and consumer protection laws were put into place that provided more standardization and alignment of loss mitigation and foreclosure processes across the industry. However, key differences still remain in default servicing requirements, resulting in different servicing protocols depending on who owns, insures, or guarantees the mortgage.

MBA’s Residential Loan Administration Committee embarked on an initiative to improve alignment in default servicing processes. Workgroups consisting of 30–40 members representing 29 companies were formed to cover the entire delinquency cycle:

• Early intervention and home retention processes;
• Non-retention foreclosure alternatives;
• Standard foreclosure milestones and processes;
• Property preservation; and
• Disaster recovery.

Each workgroup compiled a comprehensive matrix of applicable requirements from the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), and the U.S. Department of Agriculture’s Rural Housing Service (RHS). The groups then compared servicing standards to identify areas where greater alignment or standardization could benefit borrowers or communities and/or improve servicing efficiencies while reducing costs and mitigating losses for federal guarantors and insurers.

GENERAL OBSERVATIONS

• GSE default servicing policies are aligned in all material respects. The few areas where servicing policy differs, such as seasoning requirements for short sales and condemnation requirements, did not present significant operational challenges or impact borrower outcomes.
• Overall, VA and RHS guidance is far less prescriptive than FHA’s. This allows VA and RHS servicers to align to broader industry best practices.
• Regarding short sales, the group recommended more alignment across all agencies with respect to minimum net proceeds and marketing days, although the group did not have a specific preference for which agency standard to align to.
• The most significant areas of misalignment involve FHA requirements. Specifically:
  + FHA borrower outreach requirements are the most prescriptive and present operational challenges. FHA’s unique face-to-face requirement imposes significant costs on servicers with little benefit to borrowers, as evidenced by the low take-up rate.
  + FHA imposes unnecessary barriers to loss mitigation in terms of documentation requirements, non-occupant borrower participation, and requiring borrowers to sign Trial Payment Plans.
  + Unlike other programs, FHA lacks streamlined home retention options for severely delinquent borrowers. While FHA includes a streamlined process for short sales, it is only streamlined for borrowers who no longer live in the home.
  + FHA’s multiple foreclosure time frames and conveyance process are out of line with other programs and are significant drivers of higher FHA servicing costs.
  + FHA’s property preservation expenses have defined maximum amounts (in total and for each service), which requires servicers to seek FHA approval (often multiple times for a loan). This is inefficient for both servicers and FHA.
FHA is aware of these concerns and has initiated efforts to review, update and, where possible, align its standards to those of the GSEs. Previous efforts by FHA on similar servicing reform initiatives unfortunately stalled. MBA and the Residential Loan Administration Committee strongly support the current efforts, and urge FHA and HUD leadership to sustain the focus on FHA servicing standards and complete the reforms. The recommendations that follow provide a roadmap for reforms to FHA and other agency servicing standards. MBA stands ready to support these efforts through the administrative, rulemaking, and legislative processes (where necessary). MBA also believes that the more default servicing standards are aligned across the agency programs, the more likely it is that the private investors, the private label securities market, and portfolio lenders will adopt those standards in their servicing practices.

The recommendations in this paper follow the delinquency cycle. Section one deals with inconsistencies in key areas of loss mitigation: Home Retention, Foreclosure Alternatives, and Standard Milestones. The second section deals with misalignments in the Property Preservation process. The third section deals with Disaster Recovery.

Note: For purposes of this paper, we describe Fannie Mae and Freddie Mac collectively as the government-sponsored enterprises or the GSEs. We use the term “agencies” to mean the GSEs together with the FHA, VA, and RHS.
Background

As millions of borrowers fell behind on their loans during the financial crisis, the servicing industry and the state and local government infrastructure that supports the foreclosure and eviction processes found themselves ill-equipped to deal with the huge volume of defaults. Mortgage servicers and investors lacked standardized approaches for responding to struggling borrowers and assistance options didn’t always seek ways to provide payment relief.

In an effort to stem the tide of foreclosures and stabilize the housing market, federal crisis programs were established. During the height of the foreclosure crisis, the U.S. Treasury Department (Treasury) launched the Making Home Affordable (MHA) program to help struggling borrowers stay in their homes. The cornerstone of MHA was the Home Affordable Modification Program (HAMP) which established a universal loan modification program across the agencies and participating servicers and investors.

Federal and state lawmakers also responded by issuing new consumer protection requirements, the most significant of which were the national mortgage servicing rules introduced by the Consumer Financial Protection Bureau (CFPB). The rules contained strong foreclosure protections and helped to further standardize processes for working with delinquent borrowers.

However, differences in default servicing requirements remain, most notably with FHA. While servicing costs have increased across the industry over the past 10 years, FHA’s servicing costs for non-performing loans are estimated to be multiples above the cost of servicing conventional loans. The increased cost of servicing FHA loans is due to outdated servicing policies, lengthy foreclosure and conveyance processes, and fines and penalties associated with missing prescribed deadlines.

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Loss Mitigation Programs

HAMP established unified principles for loss mitigation policy across servicers and investors, and yielded important data about the effectiveness of various loss mitigation programs. In 2016, as the program neared its expiration date, industry and consumer groups and policymakers began deliberating what post-HAMP loss mitigation programs should look like.

Using lessons learned from the foreclosure crisis and data from HAMP, consensus was formed around key principles that should guide future loss mitigation programs:

- **Accessibility:** Loss mitigation processes should be simple and streamlined so that struggling homeowners are able to easily obtain assistance.
- **Affordability:** Loss mitigation programs should be structured to provide homeowners with meaningful payment relief to support long-term performance.
- **Sustainability:** Solutions should be designed to resolve the delinquency and be manageable over the long term.
- **Transparency:** Loss mitigation processes and the terms of assistance should be clear and understandable.

These four principles formed the basis for MBA’s recommendation that the successor to HAMP be a relatively universal program — One Modification or “One Mod” — that emphasized deeper payment relief, reduced documentation requirements, and streamlined processes. Progress has been made to align existing and develop new loss mitigation programs, such as the GSEs’ adoption in 2017 of Flex Modification, or Flex Mod, which includes both fully documented and streamlined versions. However, not all of the federal agencies have fully implemented the demonstrated best practices to provide borrowers an opportunity to stay in their homes. Lack of alignment in loss mitigation programs across investors or guarantors — most notably with FHA — remains an issue and results in very different borrower experiences and outcomes depending on who owns or insures the underlying mortgage.

This section discusses key areas of alignment and servicing reforms that will benefit borrowers by ensuring consistent treatment and lowering costs. Our recommendations track the delinquency cycle from initial outreach to successful modification or resolution. In this section, MBA discusses the need to align the following processes:

- Borrower outreach requirements;
- Documentation requirements;
- Methods of borrower acceptance of trial payment plans;
- Streamlined processes for seriously delinquent borrowers; and
- Foreclosure procedural timelines.

These reforms require re-evaluation of long-standing regulatory requirements. While some recommendations may require more structural change than others, all of them are vital to ensuring that borrowers are well-served in any future downturn.

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BORROWER OUTREACH

Early intervention requirements were built into the CFPB Mortgage Servicing Rules to encourage borrowers to work with their servicer early to identify their options for avoiding foreclosure. Under RESPA, servicers must establish or make good faith efforts to establish live contact with a delinquent borrower no later than the 36th day of a borrower’s delinquency. While the RESPA rule sets the floor, specific outreach time frames and frequency of contact attempts are inconsistent among the agencies.

FHA’s prescriptive requirements present operational challenges. For example, the requirement to call all delinquent borrowers exactly between days 17–20 is particularly difficult when the 17th and 18th day of delinquency fall over a weekend or when a servicing transfer occurs mid-month. This puts a significant additional strain on call centers on the following Monday, a day with typically higher inbound call volume already. Aligning with the GSEs on timing and frequency requirements would reduce these operational challenges while still allowing FHA servicers to right-size their efforts to match the risk posed by the specific borrower.

The MBA workgroup also noted the need for more clarity on how to use digital communication channels for government program loans. While Fannie Mae and Freddie Mac guidance specifically permit the use of alternative methods of contact, FHA and VA servicing policies specifically refer to telephone contact and do not address alternative methods.

With 81% of Americans owning smartphones, digital communications are much more likely to reach and engage a borrower than outbound phone calls from a call center agent. They also provide a much less expensive way to establish borrower contact, with some servicers reporting expense reductions of 30% to 75% per borrower contact through the use of these lower-cost channels. With the advances in technology and shifting borrower communication preferences, clarity and consistency around the use of newer communication technologies are needed.

FHA FACE-TO-FACE REQUIREMENT

In addition to its prescriptive outreach requirements to delinquent borrowers, FHA requires servicers to make a “reasonable effort” to arrange a face-to-face interview before a borrower becomes 90 days past due. While the regulation sets forth certain exceptions, including an exception if the mortgaged property is not “within 200 miles of the mortgagee, its servicer, or a branch office of either,” these exceptions are limited. Servicers are required to send a certified letter to the borrower and, if no response is received, send an employee or a third-party vendor to the property for the purpose of offering an interview.

This requirement dates to the mid-1970s, when access to information regarding available loss mitigation options was more limited and the Internet had not yet been invented. Given today’s technological advancements, this outdated requirement imposes a significant economic burden on servicers and exposes them to litigation risk while providing

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3 FHA defines early payment default as mortgages that become 60 days delinquent within the first six payments and redefaults as a default occurring within six months after reinstatement or successful use of a home retention option. Handbook 4000.1 Section III.A.2(h)(iv)(A).
5 24 C.F.R. § 203.604.
6 See id. § 203.604(c)(2).
no benefit to the borrower or FHA. In fact, data from our members demonstrates the incredibly limited utility of such face-to-face interview attempts.

**DOCUMENTATION REQUIREMENTS**

One of the key lessons learned from HAMP was that greater documentation requirements negatively impact or limit eligibility and participation by homeowners. Failure to return documentation or complete a loss mitigation package has been a persistent source of consumer fallout and was the top reason for denial of HAMP assistance — resulting in one-quarter of all denials. Reduced or minimal documentation requirements eliminate confusion and simplify the document collection and submission process, thus limiting the number of borrowers falling out of the loss mitigation process.

While other programs have taken steps to reduce the documents required from borrowers, FHA has paradoxically increased its documentation requirements. In 2016, FHA announced changes to its loss mitigation program that included revised requirements for the verification of a borrower’s financial information, evidence of hardship, and income used for purposes of the loss mitigation analysis.

Under its revised policies, FHA borrowers are required to provide supporting documentation to verify hardships through bank statements, medical bills, home repair bills, and other similar documentation. In contrast, GSEs use a standard hardship affidavit similar to the form Treasury used for HAMP that lists 10 hardship types and provides space for borrowers to explain complicated situations. The most common types of hardships — unemployment, reduction of income, and increased expenses — do not require any supporting documentation. Hardships due to disability, divorce, or death require supporting documentation that is reasonable and customary to obtain and is often needed for other reasons (such as a death certificate or divorce decree).

FHA also revised its policies to require additional documentation of living expenses, which might include physical receipts for purchases such as groceries and gas. FHA departed from reliance on a credit report for validation of expenses. While FHA permits servicers to use IRS collections standards in lieu of bills and receipts, it is only permitted for a narrow range of expense types defined as “Food, Clothing and Other Items.” All other expense categories (for which the IRS provides collections standards as well) require bills or payment receipts. Tracking down receipts for these day-to-day expenses can be a significant burden for borrowers.

<table>
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<th>Accepted Face-to-Face Meetings</th>
<th>FHA Servicer 1</th>
<th>FHA Servicer 2</th>
<th>FHA Servicer 3</th>
<th>FHA Servicer 4</th>
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<td>400,000</td>
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<td>Number of Property Visits</td>
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<td>145,500</td>
<td>18,000</td>
<td>1,150</td>
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<td>Number of Accepted Face-to-Face Meetings</td>
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<td>124</td>
<td>0</td>
<td>54</td>
</tr>
<tr>
<td>(%)</td>
<td>(0.003846%)</td>
<td>(0.031%)</td>
<td>(0%)</td>
<td>(2.45%)</td>
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</tbody>
</table>

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7 Over 20 years ago in Mortgagee Letter 1996-65, HUD acknowledged that revision of this policy was necessary “in light of current technology and business needs.” In 2007, in response to a proposed rule to amend Section 203.604, commenters called for a repeal of the face-to-face requirement. Eleven years later, HUD again noted that the requirement needed to be amended:

_HUD agrees with the commenters and has determined that amending the existing requirement is appropriate. As the Department has already relieved the industry from a requirement to conduct a face-to-face meeting as a requirement for loan origination, it may also be time to make a similar change with respect to FHA’s servicing requirements._ See 72 F.R. 56,155 at 56,159.

day purchases, which typically are not saved, then mailing, faxing, or scanning them to the servicer is a significant and unnecessary burden on borrowers and can delay or even prevent borrowers from receiving a modification for which they might otherwise qualify. Importantly, expenses are only used to determine repayment plan eligibility; they are not used to calculate the modified monthly payment.

In addition, FHA revised its requirements to require that income from all borrowers — including borrowers who no longer occupy the property — be considered for the purposes of loss mitigation evaluation without providing an exception for situations of divorce or death. Non-occupant borrowers must also sign and submit hardship affidavits to be considered for an FHA HAMP modification and must sign Trial Payment Plans (discussed below). These requirements can jeopardize borrowers’ ability to retain their home when a non-occupant borrower cannot be located or is unwilling to provide documentation of income or cooperate in connection with the loss mitigation evaluation. They are particularly problematic in situations of domestic violence. The tables above illustrate the disparity in documentation requirements.

Unduly burdensome requirements only serve to reduce consumer participation. FHA can increase the accessibility of its loss mitigation options by eliminating the requirement for expense documentation and aligning its hardship affidavit requirements to that of the GSEs. Aligning documentation requirements would also permit a uniform application form, such as the GSE form to be used — a method endorsed by HUD in its jointly published white paper, Guiding Principles for the Future of Loss Mitigation, to further increase accessibility. FHA should also provide exceptions to its requirement for non-occupant borrower income and participation, or provide an exception for uncooperative borrowers.

<table>
<thead>
<tr>
<th>Type of Hardship</th>
<th>Fannie Mae</th>
<th>Freddie Mac</th>
<th>FHA</th>
<th>VA</th>
<th>RHS</th>
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</thead>
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<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Reduction in Income</td>
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<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Increased expenses</td>
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<tr>
<td>Unemployment</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Reduction in Income</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Increased expenses</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
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</tbody>
</table>
TRIAL PAYMENT PLAN ACCEPTANCE

Most modification programs require that, before a loan modification is made permanent, borrowers demonstrate their ability to make modified payments by successfully completing a three- or four-month trial payment plan (TPP). Initial HAMP programs required borrowers to sign TPP agreements, but over time these programs were amended to specifically eliminate this requirement and demonstrate acceptance of the modification through payment of the trial plan amount. Once this restriction was removed, HAMP modification volumes increased.

FHA is the only agency that requires TPP signatures. In fact, FHA requires that all of the following sign the trial plan:

- The borrower seeking assistance;
- All parties on the original note;
- All parties on the FHA-insured mortgage; and
- All parties that will be subject to the modified mortgage and/or partial claim, including non-borrower household members.

If the borrower does not return the executed TPP Agreement within the month the first trial payment is due, FHA considers the borrower to have failed the TPP despite the possibility that the borrower has the ability and willingness to make the trial payment. Since trial periods are short and do not alter any of the terms of the underlying mortgage, requiring signatures at this stage creates an unnecessary burden on both borrowers and servicers.

STREAMLINED OPTIONS FOR SERIOUSLY DELINQUENT BORROWERS

Streamlined loss mitigation processes with reduced or no documentation requirements facilitate broader participation for seriously delinquent borrowers most at risk of foreclosure. By the time a borrower reaches 90 days delinquent, he or she has suffered severe credit consequences and has accumulated significant arrearages, making resolution of the delinquency even more difficult. While the ability to verify hardship and ensure affordability based on financial evaluation is limited, a recent study by the Urban Institute found that streamlined modifications had a higher use rate and increased the total success of mortgage modifications by 34%.

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Fannie Mae and Freddie Mac introduced a streamlined modification option in 2013 and more recently consolidated all previous modification products into a single modification program: Flex Modification (Flex Mod). For borrowers 90 or more days delinquent, Flex Mod requires no borrower documentation and targets a 20% payment reduction. For borrowers less than 90 days delinquent, the program requires a complete loss mitigation application and targets a 20% payment reduction and 40% housing expense-to-income ratio. VA also provides a streamlined modification process. However, neither FHA nor RHS offers a streamlined modification.

Fannie Mae, Freddie Mac, and the VA provide a streamlined process for short sales (at 90 days delinquent for GSE loans, 60 days for VA). FHA also provides a streamlined process for short sales for borrowers who are more than 90 days delinquent; however, this option is mostly limited to borrowers who no longer reside in the home. With limited exceptions, FHA borrowers who still reside in the home must first be reviewed for home retention options (which requires submission of the significant documentation described in this paper) prior to review for short sale, which essentially eliminates the streamlined process. In other words, non-occupant borrowers are being given more opportunity to participate in the FHA short sale program than occupant borrowers.

11 Handbook 4000.1 Section III A.2(i)(ii)(B)(2): The Mortgagee must ensure Owner-Occupant Borrowers... have been reviewed for Loss Mitigation Home Retention Option as follows:
- The Borrower has failed a TPP within the last six months;
- The Borrower has failed on an FHA-HAMP Option within the last two years;
- The Borrower has been deemed ineligible for a Loss Mitigation Home Retention Option;
- The Borrower received a SFB-Unemployment but did not otherwise qualify for a permanent Loss Mitigation Home Retention Option by the end of the Special Forbearance period; or the Borrower has been deemed eligible for and offered a Loss Mitigation Home Retention Option. However, all Borrower(s) must have a credit score below 580 and must provide written documentation stating that they choose not to accept the Loss Mitigation Home Retention.
FORECLOSURE TIME FRAMES

FHA, VA, and the GSEs have established foreclosure timelines to determine whether servicers are taking specific actions, such as referral to foreclosure, foreclosure sale, and conveyance, in a timely manner. Time frames are set by state with adjustments for specified allowable delays.

VA and the GSEs established a single timeline based on the maximum number of allowable days between the date the delinquency began (last paid installment or LPI) and the foreclosure sale date. In contrast, FHA uses multiple, separate deadlines to guide the foreclosure process and manage servicer performance. FHA servicers must initiate foreclosure actions within six months from the date of default (first legal).\(^\text{12}\) From the date of first legal, servicers must manage the foreclosure process through the sale within reasonable diligence timelines (reasonable diligence) established for every state.\(^\text{13}\) After the foreclosure sale, servicers must acquire good and marketable title and transfer the property to HUD within 30 days of, among other things, filing the deed for recording or acquiring possession of the property that secured the mortgage loan (conveyance).\(^\text{14}\) While the rules provide for extensions of each deadline for delays outside the servicer’s control in the form of automatic extensions or through requests to HUD, the process is time-consuming and done on a loan-by-loan basis.

Missing any one of FHA’s foreclosure timelines results in a financial penalty and curtailment of debenture interest\(^\text{15}\) from the date of the missed deadline, regardless of whether the date was missed by a day or a year. This is despite the fact that HUD would have incurred no actual losses related to the servicer’s performance at that point. Servicers must also curtail property preservation expenses incurred after a missed conveyance deadline. Recently FHA also began requiring servicers to curtail expenses if Reasonable Diligence was missed, although this position is not supported by FHA regulations. MBA and others have repeatedly raised this issue as being one of the most significant factors impacting the high cost of FHA servicing.

These timelines and associated penalties create servicer incentives that run contrary to federal and state requirements designed to ensure that borrowers are fully and fairly evaluated for loss mitigation options. Servicers are required to accommodate delays in borrower response time, provide time for borrowers to appeal loss mitigation decisions, and delay foreclosure actions until all loss mitigation requirements have been met. Compliance with these requirements can make it difficult, and in some cases impossible, to meet FHA’s deadline for first legal or adhere to reasonable diligence timelines.

\(^{12}\) See 24 C.F.R. §203.355.

\(^{13}\) See id. §203.356(b).

\(^{14}\) See 24 C.F.R. § 203.359. The GSEs (and VA and Rural) do not have a separate conveyance time frame because properties are conveyed directly after foreclosure.

\(^{15}\) Curtailment of debenture interest refers to the process by which FHA revokes the right of the servicer to collect interest accrued between the missed deadline and to conveyance.
Property Preservation

The foreclosure crisis had devastating effects not only on individual borrowers and their families but entire communities as well. During and after foreclosures, properties can sit vacant, which can cause a large ripple effect throughout the rest of the neighborhood. The longer a property remains vacant, the more significant the potential for deterioration and blight.

The effects of foreclosed homes can be felt one to three years out, resulting in a 0.9% drop in value for homes within an eighth of a mile and an 8.7% drop in home value for closely neighboring properties for up to five years.16

This section discusses key areas of alignment and standardization in property preservation, as well as securing requirements that will support communities by allowing servicers to take action faster to avoid property deterioration and get properties back into productive use. In this section, MBA discusses the need for improvements throughout the preservation and conveyance process:

• Standardize definitions of “vacant” and “abandoned” properties;
• Standardize repair and maintenance allowances; and
• Adopt a direct conveyance process for FHA properties.

DEFINITIONS OF VACANT AND ABANDONED PROPERTIES

When a borrower becomes delinquent, servicers are required to conduct regular inspections to determine if the property is still occupied. If a property is no longer occupied, servicers may be contractually required to take certain actions to secure and maintain the property. However, agencies use different terminology and do not provide clear definitions or criteria for determining occupancy status.

Clear, objective, and uniform definitions of “vacant and abandoned properties” greatly mitigate the risk that properties used less frequently or seasonally might inadvertently be classified as vacant and abandoned, and provide protection in expedited foreclosure processes. It would also permit development of a uniform inspection form, which would greatly reduce the costs of inspections and provide greater consistency and efficiencies in the inspection process.

The group recommended using MBA’s previously developed criteria on vacant and abandoned property.17

PROPERTY REPAIR AND MAINTENANCE ALLOWANCES

In order to manage their costs, investors and insurers set parameters for the amount they will reimburse servicers for property preservation costs incurred on their behalf. If the cost to repair is more than the expense allowable, servicers must obtain approval — which can be time-consuming and delay completion of repairs. By definition, over-allowable requests should be the exception, not the norm, provided that expense allowables are regularly updated and reflect market rates.

In 2016, FHA updated the Maximum Property Preservation Allowance from $2,500 to $5,000. However, the cap included all costs for work completed, including approved over-allowable amounts. Completion of routine maintenance activities, such as grass cuts, can max out the cap. The significant increase in over-allowable submissions strains the operational capacity of servicers and their field service vendors, and delays completion of property repairs.

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17 https://www.mba.org/audience/state-legislative-and-regulatory-resource-center
DIRECT CONVEYANCE OF FHA LOANS

FHA is a significant outlier in its property conveyance process. While servicers generally foreclose in their own name, properties are conveyed to other entities that insure or invest in mortgages. Unlike the GSEs, VA, or RHS, FHA does not take direct conveyance of a property after foreclosure. Rather, it requires the servicer to bring the property into “conveyable condition” within 30 days of taking control of the property. Within the 30-day period, servicers must perform multiple tasks including inspecting the property to determine necessary repairs, obtaining repair estimates and FHA approval for costs that exceed FHA’s allowances, completing the repairs, obtaining and paying outstanding homeowners association dues and utilities, and obtaining clear title. Moreover, FHA holds servicers responsible for maintaining the property until it pays the claim, even though title to the property was already conveyed to HUD. Extended time frames between conveyance and payment increase servicer liability and potential exposure to foreclosure-related losses.

Additionally, unclear guidance from FHA and inconsistent interpretation and enforcement of conveyance condition standards have resulted in significant volumes of properties being reconveyed to servicers, adding to servicer costs and delaying the liquidation process for FHA. A recent report by the Urban Institute noted that the FHA conveyance process adds almost an entire year to the process compared to non-conveyance routes.18

Adopting a direct conveyance model would allow for a quicker return of properties to productive uses, greatly benefiting communities and neighboring home values with no impact on existing borrower protections.

In the short term, HUD should continue to expand its use of alternatives to conveyance claims, including the Single Family Loan Sales program and the Claims Without Conveyance of Title program. Expanding these programs will serve to reduce the number of conveyance claims and greatly curtail the costs of foreclosure and property maintenance for both the HUD and FHA servicers associated with conveyance claims.

Disaster Recovery

With severe weather events increasing in both frequency and severity, clear and consistent disaster assistance policies are critical for long-term recovery of impacted communities and survivors. To deliver relief fairly and consistently, the industry needs a common playbook across all the federal agencies and guarantors as well as uniform standards of property preservation and hazard mitigation programs.

Regulatory consistency between investors and insurers leads to faster response times and greater equality in assistance. Following the 2017 and 2018 natural disasters, the agencies expanded their toolkits to help borrowers by:

- Eliminating/minimizing customer documentation requirements;
- Implementing additional options to provide greater payment reduction, including expanded use of principal deferment; and
- Removing restrictions on loss mitigation options such as loan seasoning, prior modifications, requirements for repairs to be completed, etc.

These changes made a big impact on the ability of borrowers to rebuild and recover, and MBA applauds the agencies for making these policies permanent. This allows borrowers to get information about assistance options quickly instead of having to wait for new guidance to be issued after each event.

MBA recommends the agencies further expand their disaster toolkits by:

- Coordinating pre- and post-disaster communications.
- Supporting policies that encourage immediate property inspections, preservation, and repairs.
  - Inspecting Properties: Facilitate prompt property assessments by making FEMA inspections reimbursable for all loan types. Borrowers should not be charged inspection fees related to the disaster.
  - Repairing Properties: Allow prompt completion of repairs by increasing amounts for claim disbursements within disbursement tiers and reducing inspection requirements.
- Streamlining options for customers who do not wish to remain in their homes by expanding eligibility requirements for deed in lieu, third-party sales, and other programs.

CONCLUSION

Markets work best with certainty and common standards. Improvement of the default servicing process through industry-wide alignment and standardization offers clarity and predictability to all parties, and produces equitable outcomes for borrowers and communities that do not vary based on the particular investor or government insurer or guarantor. Greater uniformity in loss mitigation processes promotes transparency and accessibility of foreclosure alternatives and ensures borrowers with similar circumstances are given the same opportunities regardless of who owns or insures their loan. It also allows for increased operational efficiencies and reduced servicing costs, most significantly those associated with servicing delinquent loans. With housing markets stabilized and delinquencies back to pre-crisis levels, now is the time to address the remaining areas of misalignment.