



National Reverse Mortgage Lenders Association
1400 16th Street, N.W.
Washington, DC 20036

VIA E-MAIL

June 30, 2019

U.S. Department of Housing & Urban Development
Federal Housing Administration
451 7th Street, SW
Washington, DC 20410

**Re: Proposed Revisions to Single Family Housing Loan Quality Assessment
Methodology (Defect Taxonomy)**

The National Reverse Mortgage Lenders Association (“NRMLA”) is the national voice of the reverse mortgage industry. With over 300 member companies and over 2,000 member delegates, NRMLA serves as an educational resource, policy advocate and public affairs center for lenders and related professionals. NRMLA was established in 1997 to enhance the professionalism of the reverse mortgage industry. Our mission includes educating industry participants on best practices, regulatory requirements and market dynamics; providing helpful information to consumers about reverse mortgages; enforcing our Code of Ethics and Professional Responsibility;¹ and offering insight to policymakers working on reverse mortgage matters and related issues. NRMLA members make over 90% of the reverse mortgages originated today.

Background

On May 9, 2019, HUD issued FHA INFO #19-18 requesting comments on its proposed revisions to the Single Family Housing Loan Quality Assessment Methodology (“Defect Taxonomy”). The Defect Taxonomy was created in 2015 and implemented through the Loan Review System in 2017. As noted in FHA INFO #19-18, the changes to the Defect Taxonomy are intended to provide more clarity and transparency into FHA’s existing loan-level quality assurance processes. The proposed changes to the Defect Taxonomy include:

- Updated Severity Tier definitions;
- Potential Remedies that align each Severity Tier;
- Revised Sources and Causes in certain Defect Areas;
- New Defect Areas for Servicing loan reviews; and
- Updated HUD policy references.

¹ *Code of Ethics & Professional Responsibility*, NRMLA, <http://www.nrmlaonline.org/nrmla/ethics/conduct.aspx>.

Comments on the proposed revisions to the Defect Taxonomy were originally due by June 8, 2019. However, on June 3, 2019, HUD issued FHA INFO #19-28 extending the deadline to submit comments until June 30, 2019.

Comments

Overall, we commend HUD on its efforts to provide more clarity and transparency into FHA's existing loan-level quality assurance processes. However, as more fully discussed below, the Defect Taxonomy does not accurately or sufficiently address the origination and servicing requirements for FHA-insured Home Equity Conversion Mortgage ("HECM") loans. Therefore, we respectfully request that HUD revise the proposed Defect Taxonomy to include additional and accurate examples of potential loan-level defects and remedies that apply to HECM loans.

Underwriting Loan Review

We note that most of the loan-level defects and examples provided for the Severity Tiers do not directly apply to FHA-insured HECMs. For instance, on page 11, in describing the Severity Tiers for borrower credit defects, HUD provides several examples of loan-level deficiencies related to DTI and TOTAL Scorecard calculations. However, note that HECM loans do not have a mandated DTI ratio. Additionally, FHA's TOTAL Scorecard does not apply to HECMs. In Section 1.6 of the HECM Financial Assessment and Property Charge Guide, HUD expressly states that "[m]ortgagees must not use FHA's Technology Open To Approved Lenders (TOTAL) Scorecard for HECMs."²

Moreover, we note that the only HECM-specific remedy included in the Underwriting section for a Severity Tier 2 defect is a life-of-loan indemnification. Under the "HECM" heading in the Remedies column, HUD does not provide examples of a less severe (or any other) remedy for such underwriting defects. Further, in the Underwriting section, many of the HUD Policy References cite to the outdated HECM Handbook 4235.1 ("HECM Handbook"), which was last revised in 1994. A lot of the HECM guidelines and requirements from the HECM Handbook are outdated and have since been revised by HUD by regulation and the issuance of various Mortgagee Letters.

For the foregoing reasons, we respectfully request that HUD revise the Underwriting section of the Defect Taxonomy to include additional examples of loan-level defects and remedies for HECM loans. In addition, there should be more HECM-specific guidelines included in the HUD Policy References. Further, the outdated HECM-specific guidelines referenced in the Defect Taxonomy should be updated.

² Further, note that in Mortgagee Letter 2014-21, HUD states that the "FHA TOTAL Scorecard is designed to evaluate the creditworthiness of Forward Mortgages only."

Servicing Loan Review

While we appreciate HUD's attempt to include servicing activities in the Defect Taxonomy, it appears that the Servicing section is not yet fully developed and it does not provide any clarity with regard to servicing deficiencies in connection with FHA-insured HECM loans. For example, the Servicing section of the Defect Taxonomy does not include any HUD Policy References that apply to HECM loans. The Servicing section only includes references to Section II.A (for 203(k) transactions) and Section III.A of the Single Family Housing Policy Handbook 4000.1 ("SF Handbook").

Note that Section II.A and Section III.A of the SF Handbook do not apply to FHA-insured HECM loans. In Section II.A of the SF Handbook, HUD specifically states, in part, that Section II.A "provides the origination, underwriting, closing, post-closing, and endorsement standards and procedures applicable to all Single Family (one- to four-units) Mortgages insured under Title II of the National Housing Act, *except for Home Equity Conversion Mortgages (HECM)*."³ Similarly, in Section III.A of the SF Handbook, HUD states, in part, that "[t]his section provides the standards and procedures applicable to the servicing of all Single Family (one to four units) Mortgages insured under Title II of the National Housing Act, *except for Home Equity Conversion Mortgages (HECM)*."⁴

In addition, the criteria that define the Severity Tiers in the Servicing section are vague and unclear. For example, on page 31, for Tier 3 defects, HUD states that "[d]elinquent servicing processes failed to comply with guidelines by a small degree based on tolerance determined by FHA." However, HUD does not explain or define those degrees or tolerances.

For the reasons noted above, we respectfully request that HUD revise the Servicing section of the Defect Taxonomy to include HUD Policy References that apply to HECM loans. Additionally, for clarity purposes, the criteria that define the Severity Tiers in the Servicing section should be improved and include specific examples of servicing violations in connection with FHA-insured HECM loans.

Conclusion

NRMLA appreciates the opportunity to comment on the proposed changes to the Defect Taxonomy. We trust that you will find our comments herein both helpful and informative. We would also welcome the opportunity to meet with HUD representatives to discuss the proposed revisions to the Defect Taxonomy, as well as the recommendations set forth in this letter, in more detail.

³ (Emphasis added).

⁴ (Emphasis added).

Very truly yours,

A handwritten signature in black ink, appearing to read 'S Irwin', with a long horizontal flourish extending to the right.

Steve Irwin, EVP, NRMLA
1400 16th Street NW
Suite 420
Washington, DC 20036
202-939-1776
sirwin@dworbell.com

CC: Peter Bell, President & CEO, NRMLA
Soroush Shahin, Weiner Brodsky Kider PC