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

January 28, 2022

VIA E-Mail
sffeedback@hud.gov

Re: FHA Defect Taxonomy for Servicing Loan Reviews to Handbook 4000.1

Introduction

The National Reverse Mortgage Lenders Association ("NRMLA") is the national voice of the reverse mortgage industry. With over 250 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

Overview

On October 28, 2021, pursuant to FHA Info #21-92, the Federal Housing Administration ("FHA") announced the draft update of the FHA Defect Taxonomy for Servicing Loan Reviews to Handbook 4000.1, Appendix 8.0 for public review and feedback. The draft update includes new defect areas to incorporate loan-level servicing reviews and specific remedies for servicing violations. Pursuant to FHA Info #21-107, industry stakeholders may provide feedback through January 28, 2022.

Comments

We commend FHA's efforts to structure a categorization of defects and their sources, causes, severities and potential remedies reasonably related to each underlying violation. In that regard, we note that while "Financial Remediation" is recognized as a critical remedy in Article III of Appendix 8.0 for certain loan-level underwriting and servicing findings, Article III does not recognize curtailment of otherwise reimbursable property preservation expenses and the loss of debenture interest as one of the enumerated remedies included within financial remediation. This omission is glaring from the perspective that curtailment of reimbursable property preservation expenses and debenture interest is clearly a financial penalty imposed by FHA designed to minimize and cure loses to the FHA.

Missing a first legal action date, or a reasonable diligence timeframe, results in the curtailment of otherwise reimbursable property preservation expenses and the loss of debenture interest from the date of the missed

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

time frame to the date the property is conveyed to HUD. Moreover, this penalty is not based on the number of days of delay, so even a very small delay can result in a large financial penalty.

For this reason, we urge FHA to specifically recognize curtailment of reimbursable property preservation expenses and the loss of debenture interest as a specifically enumerated form of financial remediation on Page 2, Article III, Section (B), and reflected within the following Defect Areas as a remedy for HECM-specific requirements: Appendix 8,0, Defect Area 1 (Servicer Operations) Severity Tier 2, Defect Area 2 (Account Administration), Severity Tier 2, Defect Area 3, Severity Tier 2, Defect Area 4 (Loss Mitigation Processing), Tier 2, Defect Area 6 (Home Disposition). Severity Tier 2.

Conclusion

We appreciate your consideration of our comments herein and trust that you will act favorably upon our request to specifically recognize and incorporate the curtailment of property preservation expenses and the loss of debenture interest as a remedy and category of financial remediation applicable to HECM specific requirement for the Severity Tier 2 category of Defect Areas 1, 2, 3. 4 and 6.

Very truly yours,

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