

December 20, 2024

Julia Gordon
Assistant Secretary for Housing, Federal Housing Commissioner
Department of Housing and Urban Development
451 7th St S.W.
Washington, D.C. 20410

RE: Handbook 4000.1: Servicing and Loss Mitigation; Claims and Disposition; and Appendix 4.0

Dear Commissioner Gordon:

On behalf of our low-income clients and communities, we are writing to comment on FHA's November 25, 2024 draft handbook. Our recommendations demonstrate strong support for HUD's draft and alignment on significant points related to the loss mitigation process. We applaud FHA for incorporating successful aspects of its pandemic-related waterfall into the draft handbook, and for crafting a loss mitigation program that offers streamlined assistance to borrowers facing financial hardships while preserving the MMIF.

We have attached a spreadsheet that includes our line-by-line feedback on the proposed draft. Below are some highlights of our line-by-line edits. These are in addition to the joint principles we set out in our joint letter with the mortgage trade associations.

- FHA should ensure that successors in interest who acquire the family home after a death or divorce can access the loss mitigation waterfall by making it clear that the six months of payments necessary to satisfy the credit review for assumption can be the six TPP payments. (Feedback # 6)
- FHA should revise the repayment plan provisions of the waterfall to make them more economically feasible for borrowers and servicers. (Feedback # 11, 13, & 16, and Attachment A)
- As stated in our [March 27, 2024 letter to FHA](#), we urge FHA to permit borrowers to receive one Permanent Home Retention Option every 12 months instead of every 18 months, and HUD should exclude standalone partial claims from this rule to account for the unpredictable and challenging nature of financial hardships. (Feedback # 20 & 23)
- FHA should adopt a system for reviewing borrowers who have failed Trial Payment Plans (TPPs) for alternative loss mitigation options as outlined in Attachment B to the spreadsheet. (Feedback # 30)
- FHA should ensure that, at the top of the waterfall, borrowers with loans more than seven years old receive access to standalone partial claims rather than unnecessary

modifications with term extensions that may mask increases in their interest rate.
(Feedback # 34, 38, & 54, and December 16, 2024 memo, which is Attachment C)

- The modification options in the waterfall should be provided in the following order to reduce borrower interest cost and improve borrower experience: 360 month modification, 360 month modification with partial claim, 480 month modification, and 480 modification with partial claim. (Feedback # 40 & 57)
- FHA should adopt and further strengthen its guidance for credit reporting with respect to borrowers with hardships caused by natural disasters. (Feedback # 52)

We thank you for your work and look forward to working with you on these issues. If you have any questions about this letter or the attachments, please contact Steve Sharpe, Senior Attorney at National Consumer Law Center, at ssharpe@nclc.org or Kanav Bhagat, consultant to the Center for Responsible Lending, at kbhagat@housingrpa.com.

Sincerely,

Center for Responsible Lending
National Consumer Law Center (on behalf of its low-income clients)