



January 31, 2025

FHA Commissioner
Office of Housing / Federal Housing Administration
US Department of Housing and Urban Development
451 7th Street S.W.
Washington, DC 20410

Re: Partial Claim Electronic Delivery Alternative Demonstration

Dear Acting Commissioner Little,

The Housing Policy Council (HPC)¹ appreciates the opportunity to submit comments on the Federal Register Notice describing the FHA Partial Claim Electronic Delivery Alternative Demonstration (the Demonstration).²

We support FHA's renewed interest in utilizing its demonstration authority to enhance the policy or operations of the agency.³ It's an authority that we believe FHA should continue to utilize, to test ways to improve the efficiency and effectiveness of the FHA programs for the benefit of the mortgage insurance fund, financial institutions, and borrowers.

Additionally, we support FHA's efforts to strengthen its process in light of the significant surge in the utilization of partial claims (PC) to bring mortgages current and help borrowers avoid foreclosure. HPC members acknowledge that FHA has an important responsibility to minimize the costs of implementing loss mitigation solutions, and finding ways to resolve persistent problems, such as tracking down missing documentation. We appreciate FHA's willingness to shift to reliance on digital documents when possible. However, we object to the idea proposed in this Demonstration and request that FHA abandon the demonstration entirely in favor of other, more promising cost cutting proposals.

The proposal shifts responsibility and significant cost burden⁴ that currently resides with HUD and its vendor, the Loan Servicing Contractor, to the FHA-approved mortgagees. Yet, there is no

¹ The Housing Policy Council is a trade association comprised of the leading national mortgage lenders and servicers; mortgage, hazard, and title insurers; and technology and data companies. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable homeownership opportunities in support of vibrant communities and long-term wealth-building for families. For more information, visit www.housingpolicycouncil.org.

² See Federal Register [Notice](#), Vol. 89, No. 232, December 3, 2024.

³ 24 CFR part 10 and section 470 of the Housing and Urban-Rural Recovery Act of 1983 (42 U.S.C. 3542).

⁴ HPC members estimate that just the cost of storing a file with a document custodian would be around \$3.00 a year, which would permanently raise the annual servicing costs for some HPC members by hundreds of thousands of dollars a year.

commensurate or proportional benefit to the mortgagees, for taking on additional workload. The Notice describing the Demonstration identifies that the “main goal of the Demonstration is to reduce costs and burdens for mortgagees associated with the mailing and tracking of original PC documents” and to “reduce the incidence of original PC Documents being lost during delivery, as when this occurs mortgagees have to obtain and resubmit replacements and borrowers have to re-execute lost documents.” These are indeed significant pain points for mortgagees that consume significant time and resources. However, the proposed solution in the Demonstration is fundamentally flawed in addressing this challenge, primarily because the costs of complying (the ongoing costs of storing a physical copy of the original PC for at least seven years after the transfer or sale of the mortgage) far exceed any savings that would result from eliminating the existing process. We also believe that more effective solutions are possible. It is for these reasons that we recommend that FHA abandon the proposed Demonstration, and instead focus those same resources on piloting operationally feasible ideas that will improve the FHA program.

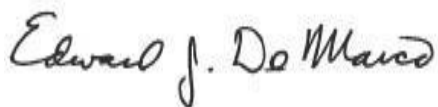
To reiterate, we very much support FHA using its “demonstration authority” to address the Department’s costs of managing the partial claim program, but instead would recommend that FHA use its limited resources to pilot alternative ideas such as eliminating the requirement for mortgagees to record partial claim documents; replacing the second lien requirement with a first lien deferral; and/or allowing all partial claim documents to take exclusively electronic form. Each of these ideas have policy trade-offs that should be tested through the use of FHA’s demonstration authority. We would welcome a conversation with FHA staff on these and other ideas that could be tested through a pilot.

Conclusion

As expressed previously, we support FHA’s objectives to improve the partial claim processes, in light of the exponential growth in the utilization of partial claims to bring borrowers’ mortgages current. Sensible changes to the process hold the potential to reduce risk and cost to FHA and mortgagees alike. However, we believe there are more promising policy solutions to pilot than what has been proposed in the Partial Claim Electronic Delivery Alternative Demonstration.

Thank you for the opportunity to comment on the proposal.

Your Truly,

A handwritten signature in black ink that reads "Edward J. DeMarco". The signature is written in a cursive style with a large initial "E".

Edward J. DeMarco
President
Housing Policy Council