

December 20, 2024

The Honorable 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 the clients, communities, companies, and borrowers we serve, we are writing to express our joint policy recommendations in response to 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 offer the following comments:

- **FHA should finalize a streamlined loss mitigation process for loss mitigation reviews as reflected in the proposed handbook.** FHA implementation of streamlined loss mitigation in connection with the pandemic reduced unnecessary barriers to loss mitigation access. FHA should keep this process and not return to a system based on collecting documents.
- **We urge FHA to extend the current loss mitigation waterfall to February 1, 2026 and correspondingly set February 1, 2026 as the implementation deadline for the final, revised handbook.** Because the draft handbook covers a broad range of topics and includes new options, a substantial implementation time window is necessary even though many parts of the draft are familiar.
- **We support the use of one waterfall of permanent loss mitigation options for all hardships, including natural disasters, which includes access to standalone partial claims, loan modifications, and payment supplements.** While individual circumstances may impact when permanent loss mitigation options are appropriate and effectively implemented, the waterfall of permanent options should be flexible enough to provide relief for any hardship. Having one waterfall eases servicer implementation without unnecessarily limiting the options borrowers can access.
- **We support FHA's decision to incorporate targeted payment reductions in the permanent waterfall.** Research has shown that targeting a reduction in monthly payment, which does not require a comprehensive evaluation of the borrower's financial situation, is more effective at reducing redefaults than meeting an income-based

affordability target. Moreover, it aligns with the Flex Modification system that the Government Sponsored Enterprises use, which makes implementation easier.

- **Using trial payment plans to measure affordability is significantly better than full documentation.** A borrower's completion of a trial plan provides direct evidence of affordability and does not impose as significant of a barrier to accessing loss mitigation as requiring full documentation. Moreover, as discussed above, a comprehensive evaluation of documents does not result in optimal outcomes for borrowers, servicers, and FHA.

While we generally support FHA's proposal for revising the loss mitigation provisions of Handbook 4000.1, we also believe the following provisions need further work. Specifically, we recommend that FHA:

- **Eliminate hardship documentation requirements** as they impose unnecessary barriers to relief;
- **Reduce duplicative seasoning rules** for modification access;
- **Prioritize access to standalone partial claims** for borrowers.

Our specific recommendations on these topics are found in our individual comments; however, we agree that further work is needed on these issues.

We thank you for your work and look forward to working with you on these issues.

Sincerely,

American Bankers Association  
Center for Responsible Lending  
Housing Policy Council  
Mortgage Bankers Association  
National Consumer Law Center (on behalf of its low-income clients)  
National Mortgage Servicing Association