NCSHA

October 25, 2018

Ms. Kate Jensen
Finance and Loan Analyst
Single Family Housing Guaranteed Loan Program
U.S. Department of Agriculture
1400 Independence Ave. SW.
Room 2250
Washington, DC 20250-1522

RE: RIN 0575–AD09

Dear Ms. Jensen,

On behalf of the state Housing Finance Agencies (HFAs) it represents, the National Council of State Housing Agencies (NCSHA)[1] appreciates the opportunity to respond to the United States Department of Agriculture's (USDA) proposed rule (RIN 0575-AD09) that would amend the loss claims and loss mitigation processes for loans originated through USDA's Single Family Housing Guaranteed Loan Program (SFHGLP).

NCSHA commends USDA for seeking to make the SFHGLP claims process more efficient for originators and servicers. Several HFAs have reported to us that the current SFHLGP claims process is lengthy and forces HFAs and other mortgagees to keep unpaid claims on their books for extended periods of time. Such extended waiting periods can be particularly costly to HFAs and other mission-driven mortgagees, who often do not have the same level of resources as profit-driven lenders.

We believe the changes USDA proposes could help to expedite the loss claims process, reduce costs for servicers, and inject more certainty into the loss claims process. At the same time, we are concerned that the timeframes for filing claims in the proposed rule, as well as the provision limiting the loss claim period to 60 days, could result in servicers receiving a claim benefit that does not adequately address their costs. We have also received several questions from HFAs about how the new loss claim process would be implemented.

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[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

Adjust Loss Claims Period to Reflect the Rural Market for Appraisals

The proposed rule would amend the loss claims procedure so that servicers would file their claim and receive their insurance benefit shortly after taking possession of a home through foreclosure or voluntary liquidation. Under current guidelines, servicers do not file their claims for SFHGLP loans until they have sold the home or after the home's "permissible marketing period," usually 9-12 months, has expired. USDA will use an algorithm to determine the proper insurance payment for each claim.

However, as mentioned above, we are concerned about the proposal to set the loss claim period to 60 days. Under the proposed rule, servicers would be required to order a market appraisal on a home 15 days after they have taken over the title. They will then have 45 days after receiving the appraisal to file their insurance claim. To reflect the new timeframe, the proposed rule would limit the loss claim period, for which servicers can be reimbursed for additional interest expenses to reflect the costs incurred while filing the claim, to 60 days.

While the proposed timeline may seem reasonable, it is important to remember that many rural areas are currently dealing with an acute shortage of qualified appraisers. Those appraisers who are available are in heavy demand. We have heard from several HFAs with substantial rural territory in their states that appraisers may not be available for appointments until several weeks or even a month after they are first contacted. Furthermore, because of the heavy backlog, it often takes appraisers several weeks after visiting a site to submit their appraisal.

In cases such as these, servicers may be forced to submit their loss claim after the 60-day loss claim period has expired, causing them to incur costs that are not reimbursable, or rush to complete their claims before the loss period expires, leading to potentially incomplete claims. Consequently, we ask that USDA consider extending the loss claim period by another 15-30 days. Alternatively, USDA could allow servicers to file for an extension of the loss claim period for cases where servicers make a good faith effort to schedule and receive the appraisal, but the process is delayed due to factors beyond their control.

In addition, several HFAs have shared questions with us about how the new loss claims process would be implemented. We request that USDA address these questions through the final rule or additional guidance:

- Will the changes to the loss claims process apply to loans that are in already in foreclosure when the changes first take effect?
- If so, how will the changes apply to loans for borrowers in their redemption periods?
- How will the changes apply to loans for which the servicer has already submitted a Property Disposition Plan?
- Will the changes apply to properties currently in their marketing period?

- Will servicers still be permitted to file supplemental claims for expenses incurred after the initial loss claim is submitted and before the home is sold?

Finalize Loss Mitigation Proposals

NCSHA generally supports USDA's proposed changes to its loss mitigation policies and procedures for SFHGLP loans. These changes will give HFAs and other servicers the flexibility they need to better target their loss mitigation efforts to meet borrowers' specific needs and circumstances. They will also allow, in some cases, for borrowers to receive more generous assistance. We urge USDA to quickly finalize these proposals.

Thank you for your consideration. We would be happy to discuss these issues with you at your convenience.

Sincerely,

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives