

Partial Claim Processing Delays

RISKS AND SOLUTIONS

The significant volume of partial claims completed throughout the COVID-19 pandemic have led servicers of FHA-insured mortgages to repeatedly receive notices from FHA's Mortgagee Compliance Manager (MCM) demanding return of insurance funds for missing partial claim documents.

According to the notices, servicers are delayed in timely delivery of the partial claim promissory note and the recorded subordinate mortgage document to FHA's MCM. However, this is contradicted by evidence from mortgage servicers documenting the timely delivery of both notes and mortgages. MBA members have reported that between 80% and 95% of the requests they receive are for documents they have already submitted. These risks and consequences are unduly burdensome and pose no reasonable risk to the Insurance Fund.

THE IMPACT OF DELAYS ON SERVICERS

- HUD's regulations currently require mortgage servicers to reimburse HUD for the entire partial claim amount paid, plus the incentive, if the note and subordinate mortgage are not delivered within prescribed timelines.¹
- The financial, compliance, and operational risk rests with the mortgage servicer to resolve the issue, despite evidence to the contrary and the fact that HUD's policy requires servicers to advance corporate funds to reinstate the borrower's delinquency.

RECOMMENDED CHANGES TO REGULATION

- Extend the deadline to submit the partial claim promissory note to align with the deadline to submit the recorded subordinate mortgage and extend both deadlines to 12 months.
- Allow servicers to send copies of the original partial claim promissory note.
- Eliminate the current penalty and impose a temporary indemnification in the event a borrower redefaults, and there is a real risk to the FHA Insurance Fund.

IMMEDIATE ACTIONS TO AMELIORATE DELAYS

- Encourage FHA's MCM to continue working on a digital manifest that provides servicers with real-time information on their submitted claims via an online portal.
- Require FHA's MCM to establish regular contact with servicers by providing document demands monthly.
- Provide at least 120 days for servicers to respond to demand notices from the MCM.

¹ 24 CFR § 203.371