MORTGAGE BANKERS ASSOCIATION

Draft FHA Payment Supplement Partial Claim Mortgagee Letter

I. Background

Yesterday, the Federal Housing Administration (FHA) posted a proposed Mortgagee Letter (ML) onto the Single-Family Drafting Table, establishing its newest loss mitigation option that provides payment relief for distressed borrowers who are delinquent on their mortgage payments. The Payment Supplement Partial Claim allows Mortgagees to use a partial claim to cure a borrower's arrearages and temporarily reduce the principal portion of a borrower's monthly mortgage payment for three to five years. The Payment Supplement Partial Claim (PC) is intended to assist borrowers in default who are unable to obtain a significant payment reduction through other loss mitigation options.

II. Why This Matters

FHA's highly anticipated proposal expands FHA's loss mitigation toolkit by creating an additional solution for struggling borrowers in high-interest rate environments. For borrowers unable to resume their regular payment, the Payment Supplement PC allows servicers to offer borrowers additional payment relief while preserving their existing below market interest rate, without completing and redelivering a loan modification to Ginnie Mae. As MBA advocated in our Future of Loss Mitigation white paper, FHA's expansion of its loss mitigation program is another step to creating a durable loss mitigation framework that ensures servicers and borrowers have access to viable solutions regardless of the market condition.

As a practical matter, FHA's proposal reimagines the use of a traditional loss mitigation tool – the partial claim – to supplement a borrower's monthly payment. As a result, mortgage servicers will be required to significantly adjust their operations and borrower experiences.

Finally, FHA's use of the drafting table is also a direct response to MBA's December 2022 letter requesting the opportunity for industry stakeholders to submit feedback to FHA. Assessing the operational and technical complexity of proposed policy ahead of a servicer's mandatory compliance deadline is essential to identifying potential risk and creating sustainable policy. As we noted in our letter, "Using the drafting table will reduce the risk of unintended consequences, ensure industry consensus, and identify the appropriate implementation timeframe, particularly as a matter of future long-term loss mitigation policy. . . is at issue."

III. Summary Highlights

a	**COVID-19 Recovery Modification (Waterfall Placement)**	Step 7 is further modified to require Mortgagees to offer borrowers either 1) the COVID-19 Recovery Modification if the borrower achieves a minimum 20% P&I payment reduction; or 2) **the Payment Supplement PC** if PC funds remain available, and the borrower is unable to achieve a minimum 20% P&I payment reduction with the COVID-19 Recovery Modification.
b	**Payment Supplement PC**	1 The Mortgagee may only submit the initial claim for the Payment Supplement PC after the Mortgagee has advanced funds to pay the arrearage, bringing the mortgage current. After filing the initial claim, the Mortgagee may file additional claims only for reimbursement to pay the Monthly Principal Reduction (MoPR) for the Supplement Period (three to five years) 2 The maximum MoPR is the lesser of the monthly principal payment or a 25% P&I reduction for 48 months. The minimum MoPR is a 5% payment reduction for 36 months. For most borrowers, the monthly payment reduction will be reduced in the final year of the Payment Supplement Period. 3 See pages 8 – 13 on how to calculate the Payment Supplement PC

c	**Payment Supplement Agreement**	The Borrower is required to return and sign the Partial Claim promissory note with the Payment Supplement Agreement attached as a rider, plus the subordinate Mortgage, prior to the Mortgagee's application of the first MoPR. A model agreement is not yet available.
d	**Disclosures**	The Mortgagee must send an annual disclosure to the borrower for the duration of the Payment Supplement Period.
e	**Subsequent Default during the Payment Supplement Period**	If a borrower becomes 30 days or more past due during the Payment Supplement Period, the Mortgagee must commence Early Default Intervention and determine whether the MoPR will continue as applied for the remainder of the Payment Supplement Period without changes to the Agreement, or whether the Agreement will terminate.
f	**SFDMS (Default Reporting)**	Servicers must report a new Status Code 51, Mortgages Receiving a Payment Supplement PC and additional status codes as applicable.
g	**Incentives**	Mortgagees may submit an incentive claim of **$1,000** for successfully completing a Payment Supplement PC. The incentive applies only to the initial claim filing.
h	**Effective Date**	Mortgagees may implement this ML immediately, and no later than 180 days from the date of publication.

IV. Next Steps

1	**Committee Calls**	A working group has been organized to meet weekly and draft our response. Please send feedback in advance of our calls in the attached **Feedback Response Worksheet**.
2	**Comment Deadline**	Responses are due to FHA by Friday, June 30, 2023.