National Association
of Federal Credit Unions
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NAFCU | Your Direct Connection to Education, Advocacy & Advancement

September 4, 2015

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
Room 10276
451 Seventh Street, S.W.
Washington, D.C. 20410

Re: Docket No. FR-5742-P-01: *FHA Single-Family Mortgage Insurance Maximum Time Period for Filing Insurance Claims*

Dear Sir or Madam:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I am writing to you regarding the Department of Housing and Urban Development (HUD) proposed rule to the Federal Housing Administration (FHA) single-family procedures for filing and calculating claims under the insurance program. *See* 80 FR 38410 (July 6, 2015). NAFCU and our members are concerned that the new maximum filing deadlines to claim FHA insurance benefits could severely impact the ability of credit unions to provide much-needed access to credit for homebuyers and could hamper the current housing recovery. Accordingly, we urge HUD to withdraw the proposed deadlines for filing FHA insurance claims.

In general, the HUD proposal would impose two deadlines by which a lender must file claims for FHA insurance benefits and, if claims are not filed by the specified deadline, the FHA insurance benefits would be terminated. The first deadline would terminate insurance if the lender does not file a claim within one year of the reasonable diligence time limit established under § 203.356(b). The second deadline would terminate insurance if the lender does not file a claim within three months of a foreclosure sale, pre-foreclosure sale, or deed-in-lieu. Currently, the HUD regulations do not impose a deadline by which a claim for insurance benefits can be filed with FHA, because it is in the lenders best interest to file the claim and receive payment as quickly as feasible for the financial institution. NAFCU believes that the proposed deadlines will be unworkable because they fail to address the reasons that many lenders today are delayed in filing claims. Over the past few years, federal, state and local authorities have been consistently prolonging foreclosure timelines, yet HUD has not updated its timeframes to keep pace.

NAFCU believes that the reasonable diligence timeframe adopted by the proposal does not properly take into account changes in the mortgage foreclosure processes and procedures.

In particular, HUD's reasonable diligence deadlines are unworkable in states that follow judicial foreclosure procedures. While lenders have always had a financial incentive to file claims and to recover losses as soon as possible, numerous occurrences beyond a lender's control can cause it to miss an applicable deadline. Timely compliance with the reasonable diligence deadline is often impossible, especially given the increasing regulatory requirements, such as HUD's loss mitigation and property preservation requirements that must be completed prior to conveyance. NAFCU believes that any filing deadline for an FHA insurance claim must accommodate the realities credit unions and other financial institutions face when preparing a property for conveyance to HUD.

NAFCU urges HUD to withdraw any rulemaking that would punish lenders for failing to comply with the deadlines because such a rule will significantly reduce FHA lending activity. The mission of FHA is to support housing finance to low and moderate-income borrowers who cannot make a large down payment. FHA insures loans that lenders extend to a class of borrowers that would otherwise have trouble obtaining financing for a home. Credit unions and several other financial institutions rely on the FHA guarantee of federal insurance in order to mitigate the credit risk of extending a loan to low and moderate-income borrowers that they likely would not make otherwise. NAFCU's economic research team has concluded that while home sales are widely expected to improve in 2015 as the labor market improves, the exit of many investors from the market and the lack of first-time homebuyers represent two issues of concern for the coming year. Any action by HUD to reduce access to FHA insurance will reduce mortgage lending at a time when the housing market is still recovering.

In reviewing HUD's own data in 2014, mortgagees have only been able to file claims with FHA within 30 days in less than 1/3 of the time. Based on this data, if HUD were to finalize the proposal to terminate insurance for late filings, nearly half of all FHA claims would be late and would lose all insurance coverage. Terminating insurance for a major portion of FHA loans would cause all FHA lenders to rethink whether to stay in the FHA market at all, threatening the viability of the FHA single-family program. Accordingly, NAFCU urges HUD to avoid adopting any regulation that would terminate the payment of insurance on an FHA loan.

While the housing market continues to heal, NAFCU cautions that the U.S. housing market is still vulnerable to any drastic market changes, particularly the proposed reduction in access to FHA insurance. NAFCU appreciates the opportunity to share our thoughts with HUD on the proposed rule. Should you have any questions or would like to discuss these issues further, please feel free to contact me at anealon@nafcu.org or (703) 842-2266.

Sincerely,

Alicia Nealon

Alicia Nealon
Director of Regulatory Affairs