



NAMFS RESPONDS TO HUD MORTGAGEE LETTER 2016-02 REQUIREMENTS

Each year the default mortgage servicing industry looks for updates to regulatory guidance from investor/insurers. The requirements and guidance drawn from regulatory guidelines can strongly impact the day-to-day business operations of companies in the default mortgage servicing industry and their third-party vendors.

On February 5, the Department of Housing and Urban Development (HUD), released Mortgagee Letter 2016-02 (ML 2016-02) with an effective date of February 1. Due to the Letter's retroactive effective date, all companies involved in the servicing of FHA-insured mortgages in default on or after October 1, 2015, would have to immediately interpret and execute operational changes to comply with revisions in HUD policy.

Updates to Property Preservation and Protection Requirements

The purpose of ML 2016-02 is to update guidance on property preservation and protection (P&P) measures taken to secure and preserve FHA-insured mortgages. The revisions outlined in the letter include, but are not limited to, increasing the maximum allowance for property preservation work, clarifying FHA conveyance conditions standards, inspection requirements, claim calculation, documentation of P&P work, and cost reimbursement procedures.

Mortgagees are responsible for the management, scheduling, and execution of property preservation and protection activity. ML 2016-02 places additional focus on damages that could be attributed to neglect by mortgagees. Inspection and preservation work, managed by field services providers, is subject

to specific time frames to complete work as well as ensuring the required work is performed by a contractor with the appropriate certifications or expertise for completion.

Where the Industry Needs Clarification

In this and other recent regulatory updates there is a tendency to view work performed by property preservation inspectors and property preservation contractors as interchangeable. Inspectors and contractors represent two distinct networks with two distinct skill sets. A recurring concern for the industry is how regulators define the role of a default property inspector. In ML 2016-02, the requirements for the vacant property inspection cycle indicate that the inspector is to address all emergency repairs and photograph and document all work at the property. Performing preservation work is out of scope for default property inspectors who are not licensed electricians, plumbers, or HVAC professionals. There should be, and NAMFS is seeking, clarification from HUD that the expectation is that the inspector is responsible for documenting and reporting all visible emergency repairs, which may include plumbing, electrical, or structural damage. To gain a thorough assessment of emergency repairs requires a property preservation contractor to assess a property in response to the inspector's first time vacant inspection results.

Another area where further clarification and guidance is needed includes the industry adhering to local and state legislation. The process of an eviction is a common area where local jurisdictions can have an impact during

the conveyance process. In states where there is a required number of workers to be present at an eviction, there should be clarification as to whether the allowance includes reimbursement of worker hours in cases where there is no personal property to be removed or the eviction is cancelled after workers arrive.

Working Toward the Standardization of Property Preservation Practices

The default mortgage industry continues to work toward the standardization of policies and procedures for the management of default property and the work performed by third-party vendors. Not only do regulatory requirements impact a business' ability to be efficient, they affect the integrity of a property in default and the community as a whole. While the goal is to deliver quality, timely property inspection and preservation work, increasingly more time is invested in assessing the responsibility, risk, and liability associated with performing work in the field. To that end, on behalf of default mortgage field services providers, a consistent effort has been made to work with regulators on how the industry can remain viable while complying with certain regulations.

Upon reviewing ML 2016-02 and understanding its specific impact to the processes and procedures performed by default property preservation providers, NAMFS leadership convened a Special Committee to review ML 2016-02. The association has drilled down its concerns and is offering solutions to some of the line items where guidance is far too general.

As associate members of the Mortgage Bankers Association (MBA), NAMFS has contributed to MBA collective industry commentary on regulatory guidelines in the past. Because ML 2016-02 is specific to work performed by NAMFS members, a thorough review of the guidance was sent to the MBA as part of a larger industry communication for submission to HUD by the MBA.

The letter submitted to the MBA from NAMFS requests clarification to help the industry develop standard procedures that comply with the directive from HUD. Additionally, the NAMFS letter proposes answers that help its members collectively interpret and address the new guidelines.

NAMFS will continue to advocate on behalf of its members and drive real solutions toward achieving compliance with federal regulations.

About NAMFS

The National Association of Mortgage Field Services, Inc. (NAMFS) is the premier trade association for the mortgage field service industry. We are dedicated to working with all entities of the industry from the government agencies and investors that set policy to the contractors and inspectors that perform the work.