

# 2022 NAMFS Conference for Mortgage Field Services

May 2-3, 2022 Embassy Suites Orlando Lake Buena Vista South

## HUD's MCM: Best Practices & Guidelines

May 3, 2022, 11-Noon



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# **HUD MCM**

## **Best Practices and Guidelines**

# **ISN**

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# **MCM Statistics**

**March 2020 through March 2022**

**Forward Over-Allowable Requests: 280,000\***

*Appeal Rate: 20.55%*

**HECM Over-Allowable Requests: 170,000\***

*Appeal Rate: 13.74%*

**Extension of Time Requests: 20,000\***

*Appeal Rate: 7.17%*

**Surcharge Damage Requests: 5,000\***

*Appeal Rate: 28.37%*

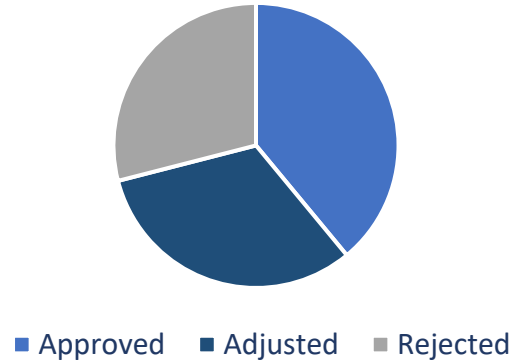
**\*Numbers rounded**

# MCM Statistics

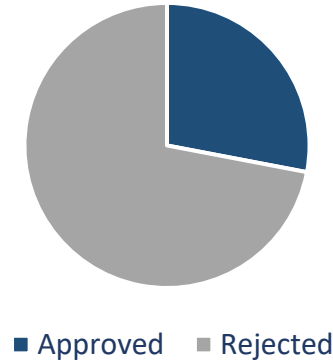
March 2020 through March 2022

## Initial Decisions by Category

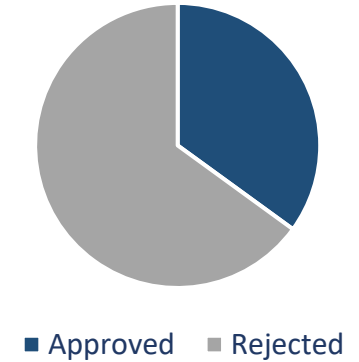
Overallowables (FWD *and* HECM)



Extension Requests



Surcharge Requests



# Inspecting the Property

## Occupancy Inspections

**Taking the time to fully inspect and document an occupied property can save countless headaches in the future**

- Potential missed First Time Vacancy (FTV)
- Disputes of responsibility for damages

### **Common factors that lead to disputes on missed FTV date**

- Photos do not support “occupancy indicators”
- Required information not provided
- Photos/occupancy inspection report are of different or wrong property addresses

### **III. SERVICING AND LOSS MITIGATION A. Title II Insured Housing Programs Forward Mortgages 2. Default Servicing - Early Default Intervention (03/31/2022)**

For all Occupancy Inspections, the Mortgagee must retain in the inspection report:

- date of the inspection;
- identity of the individual inspector and the inspection company;
- the general condition of the Property;
- any actions taken to preserve and protect the Property;
- photographs with a date and time stamp printed on each and labeled accordingly with a description of the contents of each photograph;
- occupancy status of the Property; and
- answers to the following questions, where applicable:
  - Is the house locked?
  - Is the grass mowed and/or are shrubs trimmed?
  - Is there any apparent damage?
  - Is any exterior glass broken?
  - Are there any apparent roof leaks?
  - Does the house contain Personal Property and/or debris?
  - Are any doors or windows boarded?
  - Is the house winterized?
  - Are there any repairs necessary to adequately preserve and protect the Property?



# Inspecting the Property

## First Time Vacancy Inspection

Once a property has been determined to be vacant, it is critical to secure the property timely and fully document all property conditions.

If a condition is present that is causing/allowing damages to occur, address ASAP.

Ensure all photos are date stamped and correctly labeled verifying property conditions at the time of vacancy.

### III. SERVICING AND LOSS MITIGATION A. Title II Insured Housing Programs Forward Mortgages 2. Default Servicing - Early Default Intervention (03/31/2022)

#### (1) First-Time Vacant Property Inspection

The Mortgagee must perform the FTV Property Inspection as soon as reasonably practicable, but no more than 15 business days following the determination that the Property is vacant and/or abandoned.

The Mortgagee must:

- [secure the Property](#), if possible;
- upload documentation and photographs showing any damage resulting from the Borrower that is identified using the FTV Property Inspection into P260;
- pressure-test all water supply and upload photographs of the results of the test into P260;
- address all imminent and urgent safety hazards and determine what repairs are required to prevent damage to the Property; and
- photograph the primary exterior facades and interior areas of the primary and secondary Structures, including any damage found.

# Inspecting the Property

## Continuing Vacancy Inspections

The same information/documentation required as part of the Occupancy Inspections is required as part of Vacancy Inspections.

Coordination between inspection reports and preservation reports is important.

Ensure all photos are date stamped and correctly labeled, verifying that the property conditions described within each inspection/preservation report are included.

### **III. SERVICING AND LOSS MITIGATION A. Title II Insured Housing Programs Forward Mortgages 2. Default Servicing - Early Default Intervention (03/31/2022)**

#### **(2) Follow-up Vacant Property Inspections**

The Mortgagee must perform Follow-up Vacant Property Inspections every 25-35 Days after the FTV Property Inspection until the mortgage Default is cured or until conveyance of the Property to HUD. In areas of high vandalism or where local ordinances require more frequent Follow-up Vacant Property Inspections, Mortgagees may perform Follow-up Vacant Property Inspections more frequently than HUD's 25-35 Day requirement and request reimbursement for these inspection costs.

At each inspection, the Mortgagee must:

- photograph the overall condition of the interior and exterior of the primary and all secondary Structures;
- monitor the security and maintenance of the Property;
- assess and manage damage that requires repair, replacement, or removal; and
- address and resolve all emergency repairs.

# Over-Allowable Submissions

## Common Submissions

All over-allowable requests require a minimum of three supporting documents when submitting to the MCM for review:

- Itemized Repair Bid
  - Dimensions, Materials, and Labor
- Detailed Photographic Evidence
- Full Inspection/Preservation History



The supporting documentation listed above is critical and required on all overallowable submissions. When a request comes in and is missing any of the above listed documentation, the request will likely be denied as the necessary information to consider approval is missing. Reviewing submissions to ensure that the request can receive a full review based on merit and not a rejection due to missing information.

The above are required for nearly all over-allowable submissions, however for the more complex property circumstances, additional information is often required.



# Uncommon Over-allowable Requests

## Structural Over-allowable Submissions

All structural over-allowable requests require additional supporting documents when submitting to the MCM for review:

- Detailed Photographic Evidence
- Detailed Explanation as to why work is necessary



When submitting a structural repair to the MCM, it's critical to ensure the above listed supporting documentation is provided. The MCM reviewer has to determine the issue didn't exist at origination, but did exist at FTV, and that the condition warrants repair or is considered a conveyance issue. There needs to be signs of water intrusion/flooding (not seepage), risk of collapse, bowing/leaning walls, code violation, or structural deficiencies. It's imperative if any of these conditions exists to point them out in the detailed explanation as to why the work is necessary.

# Uncommon Over-allowable Requests

## Code Violation Over-allowable Submissions

All code violation over-allowable requests require additional supporting documents when submitting to the MCM for review:

- Itemized Repair Bid (*Includes Violation Issues Only*)
  - Dimensions, Materials, and Labor
- Complete Inspection History (*including FTV condition*)
  - Date of Default through current reporting month
- Detailed Photographic Evidence
- Origination Appraisal (*if costs exceed \$10k to cure*)
- All Code Violation Documents and Correspondence



When submitting a request to cure code violations to the MCM, it's critical to ensure the above listed supporting documentation is provided. The MCM reviewer has to determine if the code violation is a result of mortgagee neglect or an origination error before considering the repairs.

# Conveying with Property Damage

## Surcharge Submissions to Convey “As-Is”

All requests to convey “As Is” with unfinished renovations should be submitted through the surcharge damage portal within P260 and require the following information for the MCM to conduct a review:

- Reason for Request
- Why repairs aren’t possible or viable
- Estimate of Damages
- Exact Figure if Available
- Complete Inspection History (including FTV condition)
- Date of Default through Current Reporting Month
- Itemized Repair Bid
- Dimensions, Materials, and Labor
- Origination Appraisal
- 203K Origination Agreement (if applicable)



These above listed supporting information is required when submitting requests to convey “as-is” with unfinished renovations to the MCM for review. If the unfinished renovation exceed \$10K, please ensure to verify they are not a result of unfinished 203k repairs or an insurable event. Please do not include items within the scope that are considered conveyance issues, provide an itemized repair bid of only items that would be left in an “as is” state.

# Best Practices

## Itemized Bid Repair Documentation

**BLUEBOOK** RepairBASE Preservation Estimate

Bedrooms:0 Baths:1.0 Year Built: Total Living Area:0 SF  
Property Type:Single Family Detached  
Date Printed: 4/19/2022 6:45:12 PM(UTC)

**Repair Summary**

**Subject Property**

Entire House: \$1,043.64

Estimated Total Repairs: \$1,043.64

LR = Lender Required CR = Cosmetic Repair CL = Claim Recovery HZ = Hazardous Secure

525 Edison Rd Endicott NY

**Repair Details For Entire House**

**Exterior Prefabricated Steps**

Item#	Description	QTY	UM	Price Per Unit	Bluebook Price Per Unit	Vendor Price Per Unit	Vendor Difference	Total
20079	Replace - Pre Fabricated Exterior Steps - Wood - 3 steps - up to 4' Wide - Does not Include Pad/Slab or Railing	2	EA	\$521.82	\$521.82			\$1043.64

Estimated Entire House Repairs: \$1,043.64

**Repair Photos**

The MCM must be able to verify and validate any costs being requested, especially if the requests are allowable scopes but in excess of the allowable amounts in order to receive consideration for approval.

The MCM uses Bluebook/RepairBASE to verify costs, however any type of cost estimation software is acceptable and heavily encouraged to provide.

Necessary information includes verification of property location, clearly stated scope of work to be performed, quantity of items needed, and the cost generated by the cost estimated software systems.



# Best Practices

## Third Party Bids

The cost estimation software is a reliable tool for the vast majority of the less complex scopes of work that are able to be performed by most general contractors, there are circumstances where the software is lacking in sufficient scopes and descriptions to detail work sufficiently.

When this occurs, 3<sup>rd</sup> party letterhead bids are often requested by the MCM to support these scopes of work. ISN will typically request multiple 3<sup>rd</sup> party letterhead bids to help support the cost and necessity of the scope of work being requested. One way to aid in getting consideration for approval is to attempt to generate cost estimation software to provide along with the letterhead bids that is an approximate scope of work being requested to further support costs provided by 3<sup>rd</sup> party vendors.





# Best Practices

## Detailed Photographic Evidence



Rear of House



Side of House



Side of House



After No City Sidewalk



Before Snow Removal - Depth Verification by Ruler



Before Snow Removal - Depth Verification by Ruler



Before Snow Removal - Driveway



Bid Interior debris



Bid Interior debris

Date stamp and labeled photos go a long way in aiding the MCM in approving bids. The better and more clear the photos are, the easier it is to verify and validate the work that needs to be done to place the property into conveyance condition.

# Best Practices

## Full Inspection/Preservation History

An inspection history that meets HUD criteria and is provided proactively will go a long way to limit unnecessary rejections and also limit potential mortgagee neglect decisions.

The following are the most common ways the inspection history is a critical aspect of over-allowable reviews:

- Confirming mortgagor versus mortgagee neglect
- Support of timely property inspections and securing are being performed and are compliant with HUD regulation
- Validation that conditions are unchanged and a source of damage has been adequately and timely addressed
- Validation that new damages are, in fact, new and not a result of delays in discovering and addressing a source of damages



# Best Practices

## Top Reasons for an over-allowable rejection

1. Missing Supporting Documentation
2. Unnecessary Scopes of Work
3. Unverifiable Bid/Photos Do Not Support
4. Insurable Damage
5. Conveyance Delays

The above are the most common reasons for an overallowable rejection given by the MCM. Taking the time to complete a thorough review of the documentation and ensuring the necessary information has been provided prior to submitting can avoid unnecessary rejections and delays in getting approval to complete the necessary work to place a property into conveyance condition.



# Over-allowable Rejection Reasons

## Missing Supporting Documentation

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing - Conveyance of Acquired Properties (03/31/2022)

#### (c) Requests for Exceeding Maximum Property Preservation Allowances

##### (i) Standard

The Mortgagee must request approval for expenses that exceed the Maximum Property Preservation Allowances from the [MCM](#) via [P260](#) when:

- the aggregate of all Property P&P expenses (excluding those not included in the \$5,000 maximum cost limit) exceeds the Maximum Property Preservation Allowance;
- a Property P&P cost will exceed the maximum line item allowance listed in the [Property Preservation Allowances and Schedules](#); or
- there is no specific line item allowance stated in the schedule for the expense.

When the Mortgagee submits an over-allowance request to exceed the Maximum Property Preservation Allowance, the Mortgagee must demonstrate their incurred P&P costs are at or near the Maximum Property Preservation Allowance.

##### (ii) Required Documentation

The Mortgagee must upload all supporting documentation into [P260](#), including a detailed description of what actions will be or were taken, an itemized list of the repairs and materials that will be or were used, relevant room dimensions, receipts, photographs, and a chronological listing of all Property P&P expenses incurred before submittal of the over-allowable expense request. Requests must be submitted at least five business days prior to the conveyance due date.

The most common reason for denial of an over-allowable is some sort of missing documentation. Before a case can be reviewed it must be supported with the proper documents, and if the required information or documentation is not provided, the over-allowable cannot be given consideration for approval.

- Itemized Repair Bid
- Detailed Photos
- Full Inspection/Preservation History
  - FTV photos
  - Current photos
- Before/During/After photos (if BATF)
- Insurance Claim
- Chronology
- Violation

Failure to provide the proper documentation can cause unnecessary delays and potentially contribute towards worsening damages.

# Overallowable Rejection Reasons

## Unnecessary Scopes of Work

When line item requests are submitted unnecessarily this leads to rejections that can cause unwanted delays and confusion. Below are some of the types of unnecessary requests seen by the MCM that should be removed prior to submitting an over-allowable for review.

- Duplicate items
- Non-Conveyance condition items
  - Unless a violation/AHJ dictates
- Upgrades
- 5k Property Cap exclusions
  - Until property cap is met
- Bids to get bids
- Contractor wait time





# Over-allowable Rejection Reasons

## Unverifiable Bid/Photos Do Not Support

If the MCM is unable reconcile the scope of work being bid against the photos provided to support, approval to complete the work cannot be granted.

### Circumstances where photos prevented approval

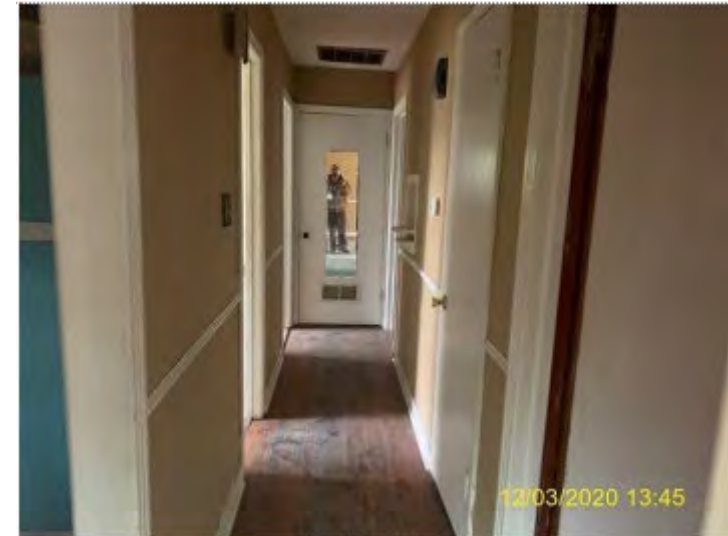
- Photos too far away to see detail of issue
- Photos too close up to confirm scope
- Photo label too vague to confirm work needed
- Photos are blurry
- Date stamps are blurry or missing altogether
- Photos do not show that work is necessary to ensure conveyance condition



*Bid to trim tree*



General Property Condition



Condition - Interior

# Over-allowable Rejection Reasons

## Insurable Damage

#### IV. CLAIMS AND DISPOSITION

##### A. Title II Claims

##### 2. Claim Types

#### **(D) Hazard Insurance Recovery**

The Mortgagee must take all appropriate action to recoup all available hazard insurance proceeds, including recoverable depreciation.

Mortgagees are required, per HUD Handbook 4000.1, to pursue insurance funds in the event of an insurable occurrence. Over-allowable requests should not be submitted to the MCM. These types of requests end up as rejections and are consistently one of the top reasons for an over-allowable line item to be rejected. It is in the mortgagee's best interest to address insurable damages as quickly as possible.



If an over-allowable request is being submitted, it is necessary to provide the following documentation:

- Insurance claim denial
- Full Inspection/Preservation history
- FTV/initial secure photos
- Current photos
- Itemized bid
- Origination/Appraisal

# Overallowable Rejection Reasons

## Conveyance Delays

### III. SERVICING AND LOSS MITIGATION

#### A. Title II Insured Housing Programs Forward Mortgages

##### 2. Default Servicing - Foreclosure (03/31/2022)

“The Mortgagee must exercise reasonable diligence when processing foreclosures and acquiring title to and possession of Properties, in accordance with HUD’s Reasonable Diligence Time Frames. When circumstances beyond the Mortgagee’s control occur, the Mortgagee may treat delays in completing the foreclosure process as exceptions to the Reasonable Diligence Time Frames and may exclude such delays when calculating the time to complete a foreclosure if an extension has been granted by HUD. “

#### Reasons for Delay

- Loss Mitigation
- Foreclosure Mediation
- Active Duty Military Service
- Bankruptcy Chapter 7 or 13
- Acquiring Possession

#### (3) Required Documentation

The Mortgagee must document in the Servicing File and the Claim Review File any delay in completing foreclosure and all activities performed by the Mortgagee to mitigate and abide by these time frames. The Mortgagee must maintain a comprehensive audit trail and chronology to support any delay in compliance with Reasonable Diligence Time Frames

Appendix 6.0 - First Legal Actions to Initiate Foreclosure and Reasonable Diligence Time frames (Applies to Servicing Only) (09/30/2016)

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**APPENDIX 6.0 - FIRST LEGAL ACTIONS TO INITIATE FORECLOSURE AND REASONABLE DILIGENCE TIME FRAMES (APPLIES TO SERVICING ONLY) (09/30/2016)**

# Over-allowable Rejection Reasons

## Additional Best Practices



### Things to do

- Verify documentation prior to submission
- Include all necessary documentation with every submission
  - Even if attached to a previous OA
- Over document
  - Don't have to provide everything every time, but historical information can be of use when establishing timeframes

### Things to avoid

- Multiple scopes on the same line item
- Including profit and/or overhead
- Data Dumps
  - It's a best practice to over document, but by providing too much information, information can be overlooked or missed inadvertently



# Moving Forward

## Key sources of information

- HUD Handbook 4000.1
- Mortgagee Letters

[Home](#) / [Program Offices](#) / [Chief Human Capital Officer](#) / [HUDCLIPS](#) / [Handbooks](#) / [Housing Handbooks](#)

## HOUSING HANDBOOKS

If you experience issues opening PDF documents on this page using Internet Explorer, try using a different web browser.

Access **Housing Handbooks** superseded in full by *Single Family Housing Policy Handbook* 4000.1 (SF Handbook)

### \* 1060.2

Title I Property Improvement and Manufactured Home Loan Regulations, 24 CFR Parts 201 and 202

### \* 1060.3

Byrd Amendment - Limitations on Payments

### \* 2226.1

Single Family Mortgage Insurance Case Binder Submission, Maintenance

### \* 4000.1

FHA Single Family Housing Policy Handbook (Online)

Handbook update published on November 9, 2021, and effective May 9, 2022.

- [FHA Single Family Housing Policy Handbook](#) (PDF)

- [Glossary/Acronyms](#) (PDF)

Handbook update published on October 26, 2021, and effective January 24, 2022.

- [FHA Single Family Housing Policy Handbook](#) (PDF)

- [Glossary/Acronyms](#) (PDF)

Handbook update published on July 20, 2021, and effective September 20, 2021.

- [FHA Single Family Housing Policy Handbook](#) (PDF)

- [Glossary/Acronyms](#) (PDF)

Handbook update published on April 19, 2021, and effective August 17, 2021, and March 31, 2022. Refer to [ML 2021-14](#) for details on effective dates.

- [FHA Single Family Housing Policy Handbook](#) (PDF)

- [Glossary/Acronyms](#) (PDF)

Access **Single Family Housing Handbooks** superseded in full by the *Single Family Housing Policy Handbook* 4000.1 (SF Handbook)

## MORTGAGEE LETTERS



Access **Mortgagee Letters** superseded in full by *Single Family Housing Policy Handbook* (HUD Handbook 4000.1)

Previous years:	2021	2019	2009	1999	1989	1979
	2020	2018	2008	1998	1988	1978
		2017	2007	1997	1987	1976
		2016	2006	1996	1986	
		2015	2005	1995	1985	
		2014	2004	1994	1984	
		2013	2003	1993	1983	
		2012	2002	1992	1982	
		2011	2001	1991	1981	
		2010	2000	1990	1980	