



June 28, 2023

**CHLA Comments
FHA Mortgage Letter (ML) Establishing Payment Supplement Partial Claim**

Hon. Julia Gordon
Commissioner, Federal Housing Administration
Department of Housing and Urban Development
451 7th Street SW
Washington, DC. 20410-8000

Dear FHA Commissioner Gordon:

The Community Home Lenders of America (CHLA)¹ writes to express our strong support for this Mortgage Letter establishing a flexible partial claim option that does not necessitate Ginnie Mae issuers having to pull loans out of Ginnie Mae loan pools to execute the partial claim.

First, this new option is well-constructed and we look forward to its execution.

Second, this option exemplifies how Federal Housing Administration (FHA) loans should work. While FHA is a federal government loan insurance program, it operates in the real world and must be nimble to be effective in response to rapidly changing market developments.

Last year, mortgage rates more than doubled. This created significant losses for Ginnie Mae issuers implementing partial claims for FHA borrowers that fell behind on their payments but were then able to stabilize their income and resume mortgage payments. This was because the mere act, for example of buying a 3% loan out of a Ginnie Mae pool, then re-pooling such a loan in a 6% market created artificial - and unnecessary - losses to the issuer.

In August of last year, CHLA sent a **Letter** to FHA and Ginnie Mae asking for a new option to avoid this need to pull FHA loans out of a Ginnie Mae and then later re-pool them for partial claims.

FHA then rolled up its sleeves and did the hard work to develop such a proposal. This Mortgage Letter establishing a Payment Supplement Partial Claim accomplishes these objectives.

Third, CHLA would like to point out that the underlying Partial Claim program - which this new FHA Payment Supplement Partial Claim option would improve - represents the best of all worlds and reflects the fruits of hard work that federal policy makers did after the 2008 housing crisis to create an effective Partial Claim program for FHA (and also for Fannie Mae and Freddie Mac).

Partial claims help FHA borrowers - by helping them stay in their home. Non-payment of an FHA loan for some period of time due to job loss or significant income diminishment can often result in an unpaid balance due that the borrower is unable to pay. This phenomenon increased substantially during COVID, as many homeowners experienced temporary losses of income.

¹ CHLA is the only national trade association focused exclusively on small and mid-sized independent mortgage banks (IMBs).

However, with the restoration of income, an FHA loan can still be sustainable financially for the borrower. The Partial Claim allows the borrower to stay in their home - by deferring the unpaid amount to the back end of the loan.

Partial claims also help FHA finances. A partial claim can and often is fully repaid. Moreover, the partial claim is typically a much smaller financial hit than FHA having to foreclose on the borrower.

This is why effective loss mitigation works - and why CHLA fully supports this new Payment Supplement Partial Claim.

We appreciate your consideration of these comments.

Sincerely

COMMUNITY HOME LENDERS OF AMERICA