



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

June 12, 2013

Mortgagee Letter 2013-21

To **All Approved Mortgagees**

Subject **FHA's Proposed Tier Ranking System II; Request for Comments**

Purpose This Mortgagee Letter solicits comments on proposed revisions to the Federal Housing Administration (FHA) Tier Ranking System (TRS). The TRS is used by FHA to measure and inform mortgagees of their loss mitigation performance. This revision, referred to as TRS II, will use more comprehensive performance metrics than the existing TRS to evaluate each mortgagee's adherence to FHA's Loss Mitigation program and default reporting requirements, as well as to ascertain the mortgagee's compliance with FHA's default servicing regulations.

Comment Due Date Interested parties are invited to submit comments on the proposed changes to TRS prior to the end of the 30-day period following publication of this Mortgagee Letter. Comments must be submitted by e-mail to TRSII@hud.gov.

Background on FHA's Loss Mitigation Program The FHA Loss Mitigation Program provides numerous alternatives to foreclosure for borrowers with delinquent FHA-insured mortgages, thereby preventing losses to the FHA Mutual Mortgage Insurance (MMI) Fund. Since its inception in 1996, the Loss Mitigation Program has helped more than two million homeowners through formal and informal engagement tools, and this number continues to grow. FHA requires mortgagees to engage in loss mitigation and relies on their full participation and cooperation in order to protect the MMI Fund. Failure to engage in loss mitigation can subject servicing and holding mortgagees to penalties of three times the amount of any mortgage insurance benefits claimed by the mortgagee.

Present Tier Ranking System

In 2000, HUD began using the Tier Ranking System to measure a mortgagee's engagement in loss mitigation. The existing TRS system is designed to measure and analyze a mortgagee's portfolio-wide loss mitigation efforts and consists of four tiers: Tier 1 reflects the highest ranking mortgagees and Tier 4 reflects the lowest ranking mortgagees. The current formula for determining a TRS ranking is the sum of forbearances, loss mitigation retention claims, pre-foreclosure sale claims, and deed in lieu claims, divided by the foregoing sum and foreclosure claims.

Under TRS, HUD reviewed default reporting of forbearance actions, as well as loss mitigation and foreclosure claims paid to mortgagees, to determine the total number of loss mitigation tools used. Though TRS ensures that mortgagees are engaging in loss mitigation on behalf of distressed borrowers, the utility of TRS is limited as it was not designed to assess mortgagees' overall servicing of delinquent FHA loans more comprehensively.¹

Proposed Tier Ranking System II

The effectiveness of FHA's Loss Mitigation program has been evaluated using the TRS, and since 2000, there have been more than 40 tier ranking rounds. The proposed revisions to the TRS analytical formula are expected to provide HUD with a more comprehensive metric focused not only on mortgagees' loss mitigation engagement, but also on mortgagees' compliance with other aspects of FHA's default servicing requirements. Under the revised formula, TRS II, mortgagees will be evaluated on their overall performance in regard to delinquent loan servicing in general, which includes:

- foreclosure prevention, which will measure loss mitigation attempts as well as timeliness and appropriateness of foreclosure initiations;
- redefaults, which will measure loss mitigation claims as well as utilization of loss mitigation tools through subsequent defaults;
- Single Family Default Monitoring System (SFDMS) reporting, which will measure defaults and the data provided by mortgagees; and
- loss mitigation engagement, which will measure loss mitigation attempts, claims, and defaults.

In 2010, to allow mortgagees a trial and comment period for TRS II, mortgagees servicing 90 percent of FHA's insured mortgage portfolio were given the opportunity to voluntarily participate in a pilot evaluation known as the Servicer Performance Scorecard (SPS). As a result of the feedback FHA received from the participants in the SPS pilot, the TRS II methodology was further refined in Fiscal Year (FY) 2011.

¹ More information regarding TRS including historical information, benchmarks, and mathematical formulas can be found at

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/nsc/trsovrwv

Scoring under TRS II

TRS II will aggregate four scoring elements:

- Foreclosure Prevention;
- Redefaults;
- SFDMS Reporting; and
- Loss Mitigation Engagement.

Each scoring element will be evaluated separately, then combined for a final score for a given fiscal year quarter. These final scores correspond to letter grades “A” through “F”. Mortgagees may also earn extra credit and thereby increase their scores by completing FHA delinquent servicing training. For example, mortgagees may certify that at least 50 percent of their staff responsible for FHA loss mitigation has completed HUD’s Electronic Class (E-Class) on Loss Mitigation and Servicing System during each fiscal year.

Quarterly Scores: Each mortgagee will be provided a score and a corresponding letter grade (“A” through “F”) each quarter. This score will be based on the average score for each month of that quarter. A grade of “A” will correspond to a Tier 1 ranking, a grade of “B” will correspond to a Tier 2 ranking, a grade of “C” or “D” will both correspond to Tier 3 rankings, and a grade of “F” will correspond to a Tier 4 ranking.

FY Scores: Quarterly scores will be averaged to produce a final annual FY score and grade, which will determine those mortgagees that may qualify for additional incentive payments.

Access to TRS II Scores and Scoring Data

Mortgagees can perform self-evaluations for the purpose of improving their scores quarterly. To perform these evaluations, mortgagees can access the data used in their scores via the FHA Connection and Neighborhood Watch, or by contacting the National Servicing Center (NSC).

On a quarterly basis, mortgagees will be provided their scores and grades for the scoring period, including case level detail as requested. The final FY scores and grades will also be available online at the end of the calendar year.

Full details of the TRS II methodology (as based on the SPS pilot methodology), including scoring elements, grades, extra credit, and information about improving scores are available at <http://portal.hud.gov/hudportal/documents/huddoc?id=spsnarrative.pdf> or by contacting the NSC via sfdatarequests@hud.gov.

**Appeal Rights
under TRS II**

Mortgagees receiving a grade of “F” under TRS II will have the same appeal rights as granted to TRS Tier 4 mortgagees in 24 CFR 203.605(b)(3). Within 30 calendar days after the date of the TRS notice, a mortgagee that received a grade of “F” may appeal its grade to the Deputy Assistant Secretary for Single Family or the Deputy Assistant Secretary’s designee and request an informal HUD conference. The only basis for appeal by the mortgagee receiving an “F” is disagreement with the data used by HUD to calculate the mortgagee’s grade. If HUD determines that the mortgagee’s “F” grade was based on incorrect or incomplete data, the mortgagee’s performance will be recalculated and the mortgagee will receive a corrected tier ranking score. Publication of scores will not occur until the appeal timeframe has ended, all appeals have been evaluated, and mortgagees that have submitted appeals have been notified of the results.

**Issuance of
Final TRS II**

HUD will issue a final Mortgagee Letter that includes changes, if any, that are being made to the TRS II scoring methodology based upon public comments. The final methodology will also be posted on the NSC’s website: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/nsc/nsc_home in the “Mortgagee Narrative” section.

**Implementation
of TRS II**

The first TRS II evaluation of mortgagees’ performance will be conducted for the quarter July 1, 2013, through September 30, 2013, and will be based on data collected from October 1, 2012, through September 30, 2013, in compliance with regulations at 24 CFR 203.605(b) which require that a 12 month period be used to evaluate performance. This evaluation will be utilized to determine which mortgagees are eligible for additional incentive payments during the January 1 through December 31, 2014, calendar year. Mortgagees will be notified of TRS II rankings and incentive periods by Mortgagee Letter. Additionally, notice will be sent electronically via email to those mortgagees that qualify for scoring if they have provided at least one valid email address. If at least one valid email address has not been provided, a hard copy will be sent via mail.

Questions

Any questions regarding this Mortgagee Letter may be directed to the HUD National Servicing Center at (877) 622-8525. Persons with hearing or speech impairments may reach this number by calling the Federal Information Relay Service at (800) 877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers.

Signature

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