



March 10, 2025

**CHLA Comment Letter  
Establishment of FHA Optional Claim Reimbursement**

Mr. Jeffrey Little  
General Deputy Assistant Secretary  
Office of Housing/Federal Housing Administration  
U.S. Department of Housing and Urban Development  
451 7th St SW, Room 9100  
Washington, DC 20410

Dear Mr. Little

The Community Home Lenders of America (CHLA)<sup>1</sup> is writing to support the HUD draft Mortgagee Letter (ML) Establishment of the Optional Claim Reimbursement Alternative Letter (OCRA).

CHLA fully supports this proposal by FHA to provide reimbursement of tax and insurance expenses to lenders.

**Background**

Lenders are required to pay taxes and insurance on defaulted Mortgages while attempting loss mitigation. These costs are ultimately reimbursed when a final claim is paid unless the loan is reinstated. Currently, the extended time between a loan default and final resolution place significant liquidity demands on lender/servicers. This is especially true as higher interest rates have increased borrowing costs.

Therefore, CHLA fully supports the Optional Reimbursement Claim Alternative (ORCA) for lenders who elect to submit early claims for reimbursement of taxes and insurance costs paid prior to final claim payment. This is an important alternative for those lenders that want to recover the expenses advanced for tax and insurance expenses on defaulted loans.

This constructive change would reduce the advance obligations of servicers of FHA loans, thus improving the liquidity of servicers, which has been an important objective of public policy makers.

**CHLA Implementation Recommendations**

As requested by FHA, per the drafting table process, CHLA offers the following specific suggestions for consideration in developing the final policy – found on the following page

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

**Bulk Processing Capabilities:** For this tool to be most useful, FHA must provide bulk processing capabilities for servicers to submit multiple ORCA claims monthly to ensure servicers can adopt scalable and sustainable processes and mitigate potential compliance risks with FHA's new policy. We support creating an early claims reimbursement process for escrow advances that aligns with the policy created by Fannie Mae and Freddie Mac.

**Effective Date:** This ML should be effective **60** days from publication and only **after** FHA's internal claims technology has been completed and is ready for widespread use.

**Tech Testing Small Group:** We also suggest that FHA complete technology testing with a small group of servicers to ensure that bulk claims function properly. Filing FHA claims requires careful team members resourced to ensure the data submitted to FHA is accurate before servicers certify compliance with FHA's rules. The ability to test bulk claims processing technology is imperative to ensure the accuracy of individual ORCA claims is reconciled with the final liquidation claim. Technology should also include reconciliation and capture receipt of various advice of payments (AOP) showing claims paid and funds being reimbursed back to HUD.

**Loans Currently in Default:** Separately, FHA should clarify that the ML is effective for loans in default at the time the ML is effective. The liquidity benefits to servicers are so significant that they should be able to file ORCA claims for escrow advances made on loans currently in default.

**Claim Filing Timelines:** Servicers should be permitted to file an ORCA claim for eligible advances at four (4), not six (6) months past due. The liquidity benefits to servicers are so significant that they should not be arbitrarily limited to those that are 6 months past due.

**Liquidity Constraints:** Similarly, servicers should be permitted to file any subsequent ORCA claim no less than four (4), not six (6) months from the date the previous ORCA claim was filed. Allowing servicers to file more frequent ORCA claims will help servicers mitigate liquidity constraints and align with Fannie Mae and Freddie Mac's early claims process.

**Claim Intervals:** FHA should also confirm that servicers are not required to consistently file ORCA claims at regular intervals.

**No Cumulative Cap:** FHA should remove any cap to the cumulative amount for all ORCAs a servicer may submit for a single Default episode to recover advances of property taxes, Hazard Insurance, and Flood Insurance. While there may be limited instances, a servicer advancing obligations can continue beyond the 48 month limit proposed by FHA until a borrower reperforms or a liquidation action is completed.

**Escrow Balance Confirmation:** An eligibility requirement for an ORCA is for the mortgagee to ensure escrow funds were exhausted and inadequate to meet those obligations. FHA should clarify whether this means the servicer must confirm the escrow balance must be negative.

**Timelines:** Servicers should be given sixty (60) calendar days, not three (3) days, to remit funds if a miscalculation results in a mortgagee being paid on an ORCA claim.

**Remit of Funds SLA:** FHA should also clarify the timeframe for servicers to remit funds to FHA. Are servicers required to remit funds within three business days of discovering the error or payment of ORCA claim funds?

**Claim Difference Prohibition:** Servicers should not be prohibited from claiming any difference on a subsequent claim if an initial claim was miscalculated. FHA should remove this standard.

Thank you for consideration of these comments and recommendations.

Sincerely

COMMUNITY HOME LENDERS OF AMERICA