

locate the AAF for the geographic area where the contract unit is located.

- Determine whether the highest cost utility is or is not included in contract rent for the contract unit.
- If highest cost utility is included, select the AAF from the column for “Highest Cost Utility Included.” If highest cost utility is not included, select the AAF from the column for “Highest Cost Utility Excluded.”

## V. Methodology

AAFs are rent inflation factors. Two types of rent inflation factors are calculated for AAFs: gross rent factors and shelter rent factors. The gross rent factor accounts for inflation in the cost of both the rent of the residence and the utilities used by the unit; the shelter rent factor accounts for the inflation in the rent of the residence but does not reflect any change in the cost of utilities. The gross rent inflation factor is designated as “Highest Cost Utility Included” and the shelter rent inflation factor is designated as “Highest Cost Utility Excluded.” HUD calculates the AAFs based on the shelter and gross rent inflation factors used in FMR calculations. The source data for AAFs therefore come from the 23 local and 4 regional CPI components (rent of primary residence and household fuels and utilities), depending on the location of the AAF area, and are combined with available measures of private data sources in calculating a weighted average shelter and gross rent inflation factor. The private measures of rent used by HUD are the RealPage average effective rent per unit; Moody’s Analytics REIS average market rent; CoStar Group average effective rent; CoreLogic, Inc. single-family combined 3-bedroom median rent; Apartment List Rent Estimate; and Zillow Observed Rent Index.

In calculating the AAF from these data, HUD first takes the annual average of each statistic, then its year-to-year change. HUD then takes the mean of changes from all available sources for each area. Next, HUD takes an average of this private-sector measure of rent inflation with rent inflation as captured by the CPI for the area, where the private-sector measure is weighted at approximately 75 percent and the CPI rent inflation measure is weighted at approximately 25 percent. HUD has determined these weights by comparing the national average of the private rent changes and changes in CPI rent of primary residence to changes in the national average of recent mover rents from the American Community Survey (ACS) from 2018 through 2022. HUD weights the private data averages and

overall CPI rent of primary residence in such a way as to minimize the root mean squared error between the resulting average and the ACS recent mover rents. For future AAFs, HUD will update the weights by adding the most recent years of ACS recent mover rents, private rent data, and CPI rent of primary residence to the analysis.

HUD uses a local measure of private rent inflation for markets that are covered by at least three of the six available sources of private rent data. HUD combines this local measure of rent inflation with either the local metropolitan area CPI rent of primary residence for the 23 areas where such data exist or the regional CPI rent in areas without a local index. For areas without at least three of the six private rent data sources available, HUD uses a regional average of private rent inflation factors alongside the regional CPI rent of primary residence. HUD constructs the regional average by taking the rental unit weighted average of the change in rents of each area in a region that does have private rent data coverage. This ensures that smaller areas that are not directly covered by the private sources will still have current rental market conditions taken into account in the calculation of the rent inflation factor for such areas.

The results of the above calculation are the “Highest Cost Utility Excluded” AAF. For the “Highest Cost Utility Included” AAF, HUD averages the result of this step with the year-to-year change in the CPI housing fuels and utilities index for the area in order to make the resulting inflation measure reflective of gross rents.

## VI. Area Definitions

To make certain that they are using the correct AAFs, users should refer to the Area Definitions Table section at <https://www.huduser.gov/portal/datasets/aaf.html>. Furthermore, users can also search for AAF area definitions using an online lookup tool available on HUD User at the link in the previous sentence. AAFs are based on the updated metropolitan area definitions published by the Office of Management and Budget (OMB) on September 14, 2018, and first incorporated by the U.S. Census Bureau into the 2019 ACS data and the corresponding FY 2022 FMRs. On July 21, 2023, OMB published Bulletin No. 23–01, which contains revisions to metropolitan area definitions. However, the U.S. Census Bureau has not yet incorporated these revisions into the data available to HUD,

and therefore HUD is not using these new definitions for FY 2025.

**Solomon Greene,**

*Principal Deputy Assistant Secretary for Policy Development and Research.*

[FR Doc. 2024–28314 Filed 12–2–24; 8:45 am]

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## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR–6474–N–01]

### Notice of Partial Claim Electronic Delivery Alternative Demonstration

**AGENCY:** Office of the Assistant Secretary for Housing—Federal Housing Commissioner, HUD.

**ACTION:** Notice, with request for comments.

**SUMMARY:** This notice announces the Partial Claim Electronic Delivery Alternative Demonstration (the Demonstration). Under the Demonstration, participating mortgagees will submit digital copies of partial claim promissory notes and subordinate mortgages (PC Documents) to HUD instead of originals, which they will retain and provide to HUD upon request. The Demonstration will include any mortgagees that elect to participate but will only include partial claim subordinate mortgages secured by mortgage properties where the use of digital copies is permissible under applicable law. When the Demonstration ends, HUD will evaluate its success, determine whether to permanently implement the Demonstration processes, and identify any other necessary changes.

**DATES:** Comments are due no later than February 3, 2025. Following the conclusion of the 60-day comment period, HUD will fully evaluate submitted comments and may modify the design of the Demonstration. HUD will then issue another notice announcing the start date of the Demonstration and will also publish a mortgagee letter with further information.

**ADDRESSES:** There are two methods for submitting public comments. All submissions must refer to the above docket number and title.

*1. Electronic Submission of Comments.* Comments may be submitted electronically through the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov). HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments allows the commenter maximum time to prepare

and submit a comment, ensures timely receipt by HUD, and enables HUD to make comments immediately available to the public. Comments submitted electronically through [www.regulations.gov](http://www.regulations.gov) can be viewed by other commenters and interested members of the public. Commenters should follow the instructions provided on that website to submit comments electronically.

**2. Submission of Comments by Mail.** Comments may be submitted by mail to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street SW, Room 10276, Washington, DC 20410-0500.

*Note:* To receive consideration as public comments, comments must be submitted through one of the two methods specified above.

*No Facsimile Comments.* Facsimile (FAX) comments are not acceptable.

**Public Inspection of Public Comments.** HUD will make all properly submitted comments and communications available for public inspection and copying during regular business hours at the above address. Due to security measures at the HUD Headquarters building, you must schedule an appointment in advance to review the public comments by calling the Regulations Division at 202-708-3055 (this is not a toll-free number). HUD welcomes and is prepared to receive calls from individuals who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. To learn more about how to make an accessible telephone call, please visit: <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>. Copies of all comments submitted are available for inspection and downloading at <https://www.regulations.gov/>.

**FOR FURTHER INFORMATION CONTACT:**

Elissa Saunders, Director, Office of Single Family Asset Management, Office of Housing, Department of Housing and Urban Development, 100 South Charles Street, Bank of America Building, Tower II, 11th Floor, Baltimore, MD 21201; telephone number 202-402-2378 (this is not a toll-free number). HUD welcomes and is prepared to receive calls from individuals who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. To learn more about how to make an accessible telephone call, please visit <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

**SUPPLEMENTARY INFORMATION:**

## I. Background

### A. Partial Claim Processes and Mortgage Responsibilities

Pursuant to section 230(b) of the National Housing Act (12 U.S.C. 1715u), HUD will pay a partial claim to a mortgagee to cure arrearages and, in certain cases, to achieve principal reduction on an FHA-insured mortgage in default or facing imminent default. In exchange for this partial claim payment, the borrower agrees to execute PC Documents in favor of HUD.

HUD's PC Documents do not accrue interest and require repayment only when the first of the following events occurs: the maturity of the first mortgage, the sale of the property, the payoff of the first mortgage, or if provided for under the partial claim note, the termination of FHA insurance, except that HUD will agree to subordinate the partial claim note to an FHA streamline refinance.

The mortgagee is responsible for having the PC Documents executed, recording the partial claim mortgage, and delivering the original PC Documents to HUD (see 24 CFR 203.371 and HUD Handbook 4000.1

III.A.2.k.v.(H)). If the mortgagee fails to provide HUD with the original PC Documents within the required timeframes, HUD requires reimbursement of the full amount of the partial claim and partial claim incentive fee (see 24 CFR 203.371(d), specifically).

The mortgagee must retain copies of the PC Documents and other required partial claim information in its servicing file. The mortgagee is currently required to retain these items in its servicing file for at least seven years after the transfer or sale of the first mortgage or termination of mortgage insurance.

### B. Partial Claim Servicing and Debt Collection

The mortgagee services the partial claim until it records the partial claim mortgage and delivers the PC Documents to HUD. Thereafter, HUD, through its Loan Servicing Contractor (LSC), services partial claims and serves as the document custodian for PC Documents.

When HUD is informed that the first mortgage is being paid in full, sold, transferred or assumed, terminated, or refinanced without resubordinating the partial claim, HUD, through its LSC, may provide a payoff figure on a partial claim. Once PC Documents become due and payable, HUD's LSC issues a payoff letter. If the borrower fails to pay the partial claim debt, it can be referred to HUD's Financial Operations Center for appropriate collection action. The

referral package includes a copy of the PC Documents.

While HUD primarily relies on copies of PC Documents to conduct its servicing and collection activities, there are limited occasions where original PC Documents are required to support such efforts. This is why HUD requires the mortgagee to deliver original PC Documents to HUD and why HUD retains original PC Documents.

HUD is aware of the costs incurred and burdens associated with the mortgagee's delivery of and HUD's retention of original PC Documents. Besides these regular costs and burdens, there are also additional costs and burdens when original PC Documents are lost during delivery and it becomes necessary to take various steps to locate the lost PC Documents and execute lost note affidavits. In light of these costs and burdens, HUD now seeks to evaluate whether mortgagees could retain original PC Documents in their servicing files and deliver them to HUD only upon HUD's request.

## II. Notice of Demonstration Program

### A. Duration

HUD will announce the start date of the Demonstration in a subsequent notice that will be issued after the conclusion of the 60-day comment period for this notice. The Demonstration will continue for five years after this start date, unless extended. Mortgagees electing to participate in the Demonstration would be required to retain original PC Documents for the same records retention timeframe as the associated first mortgage. The requirement to retain the original PC Documents would not end after the expiration of the Demonstration for any PC Documents that have been electronically submitted to HUD as part of this Demonstration.

### B. Overview

Under the Demonstration, mortgagees would, after execution of the PC Documents by all required parties, agree to: (1) submit an electronic copy of the executed partial claim note to HUD no later than 60 days from the execution date, (2) submit an electronic copy of the recorded partial claim mortgage to HUD no later than six months following the execution date, (3) retain the original PC Documents for the required duration of document retention, as described in HUD Handbook 4000.1 III.A.1.n, unless HUD otherwise instructs the mortgagee that the retention requirements have changed or that retention is no longer required, and (4) deliver the original PC Documents to

HUD upon HUD's request no later than five business days after the date of the request, or within another timeframe prescribed by HUD. Mortgagees that elect to submit electronic PC Documents for a subordinate mortgage must continue to process all future PC Documents electronically, for the duration of the Demonstration, unless a particular mortgage property is located in a jurisdiction where the use of digital documents is prohibited.

### C. Goals

The main goal of the Demonstration is to reduce the costs and burdens for mortgagees associated with the mailing and tracking of original PC Documents. The Demonstration is also intended to reduce the incidence of original PC Documents being lost during delivery, as when this occurs mortgagees have to obtain and resubmit replacements and borrowers have to re-execute lost documents. In addition, it is intended to reduce the amount of mortgagee reimbursement to HUD in connection with lost PC Documents. Finally, the Demonstration is also intended to reduce HUD's costs related to the retention of original PC Documents and to enhance HUD's ability to conduct servicing and debt collection activities associated with partial claims.

### D. Participating Mortgagees

Mortgagee participation in the Demonstration is voluntary. HUD will allow all mortgagees to participate in the Demonstration, where state and local law permits. The actions the participating mortgagees will take related to the submission of electronic PC Documents and the retention of original PC Documents will be performed without any expectation of compensation. If a mortgagee does not adhere to the requirements of the Demonstration, they may be removed from participation in the Demonstration.

### III. Impacted Regulations

For the duration of the Demonstration, participating mortgagees will not adhere to the 24 CFR 203.371(d) requirements to submit original PC Documents to HUD within certain prescribed timeframes. Failure to submit original PC Documents within these timeframes will not result in mortgagees having to reimburse HUD for the full amount of the partial claim or any partial claim incentive fee, so long as electronic copies of the PC Documents were submitted within the required timeframes and original PC Documents are delivered to HUD, upon HUD's request, within the required timeframe.

### IV. Evaluating the Success of the Demonstration

At the conclusion of the Demonstration, HUD will assess its success, determine whether to implement the Demonstration's PC Documents submission and retention processes on a permanent basis, and identify any additional changes that may be needed to implement those processes. In conducting this evaluation, HUD will assess such factors as whether the Demonstration processes: (1) reduce the costs and burdens for mortgagees associated with delivering original PC Documents to HUD, (2) reduce the number of lost original PC Documents, (3) reduce the costs and burdens for HUD associated with the retention of original PC Documents, (4) enhance HUD's ability to conduct servicing and debt collection activities associated with partial claims, and (5) allow for the assessment of risk to HUD's partial claim recoveries and FHA's Mutual Mortgage Insurance Fund.

### V. Solicitation of Public Comments

In accordance with 24 CFR part 10 and section 470 of the Housing and Urban-Rural Recovery Act of 1983 (42 U.S.C. 3542), HUD is seeking comment on the Demonstration in this **Federal Register** notice for 60 days of public comment. The public comment period will give HUD the opportunity to consider submitted comments and to be in a position to commence implementation of the Demonstration following the conclusion of the 60-day comment period and publication of an additional notice announcing the Demonstration start date. HUD will fully evaluate submitted comments before the Demonstration commences and may modify the design of the Demonstration. If HUD decides to make any changes to the Demonstration, HUD will provide separate notice to the public prior to commencing the Demonstration.

**Julia R. Gordon,**

*Assistant Secretary for Housing—Federal Housing Commissioner.*

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### DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-6492-N-01]

### Notice of Adoption of U.S. Department of Agriculture Farm Service Agency Categorical Exclusions Pursuant to Section 109 of the National Environmental Policy Act

**AGENCY:** Office of the Secretary, HUD.

**ACTION:** Notice.

**SUMMARY:** HUD has identified categorical exclusions (CEs) to the National Environmental Policy Act (NEPA) established by the U.S. Department of Agriculture—Farm Service Agency (USDA—FSA) that cover categories of actions that HUD proposes to adopt. This notice identifies the USDA—FSA CEs and HUD's categories of proposed actions for which it intends to use USDA—FSA's CEs and describes the consultation between the agencies.

**DATES:** This action is effective upon publication.

#### FOR FURTHER INFORMATION CONTACT:

Lauren Hayes Knutson, Environmental Planning Division Director, Office of Environment and Energy, U.S. Department of Housing and Urban Development, 451 7th Street SW, Room 7282, Washington, DC 20410-5000; telephone 202-402-4270 (this is not a toll-free number); email [EnvironmentalPlanningDivision@hud.gov](mailto:EnvironmentalPlanningDivision@hud.gov). HUD welcomes and is prepared to receive calls from individuals who are deaf or hard of hearing, as well as individuals with speech and communication disabilities. To learn more about how to make an accessible telephone call, please visit <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

#### SUPPLEMENTARY INFORMATION:

#### I. Background

*National Environmental Policy Act and Categorical Exclusions*

Congress enacted the National Environmental Policy Act, 42 U.S.C. 4321-4347, (NEPA) in order to encourage productive and enjoyable harmony between humans and the environment, recognizing the profound impact of human activity and the critical importance of restoring and maintaining environmental quality to the overall welfare of humankind. 42 U.S.C. 4321, 4331. NEPA seeks to ensure that agencies consider the environmental effects of their proposed major actions in their decision-making processes and inform and involve the public in that process. NEPA created the