June 24, 2020

The Honorable Ben Carson
Secretary
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, D.C. 20210

The Honorable Mark Calabria
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20219

Dear Secretary Carson and Director Calabria:

We are writing to express our deep concern over recent policy changes regarding the treatment of mortgages that have closed but entered forbearance prior to being sold to the Government Sponsored Enterprises or insured by the Federal Housing Administration (FHA). We believe these changes will further reduce access to credit for borrowers of color and those living in communities hardest hit by the coronavirus, thereby having a deleterious pro-cyclical effect rather than playing the critical countercyclical role that these government-backed institutions played in the last crisis. They also have the potential to significantly affect both the cost and availability of financing of multifamily mortgage financing, which could reduce affordability in the rental market as well.

While we understand the need to protect the taxpayer, the small number of loans that enter into forbearance post-closing pose no risk of causing a government bailout of any of these institutions. Given the historically unprecedented credit quality of the current books of business of Freddie Mac, Fannie Mae and FHA, these institutions are well positioned to serve taxpayers best by carrying out their existential missions of supporting liquidity in the mortgage market while expanding the opportunity of homeownership to all who are qualified.

Since there is no way to underwrite loans for the contingency of COVID-19 related unemployment, lenders will inevitably apply deep overlays across their book of business to avoid penalties that wipe out the profit on these loans and many more that never go into forbearance. This is the equivalent of collective punishment on all borrowers, particularly first-time homebuyers with smaller down payments, less than pristine credit, or those employed in areas that have already withstood the majority of likely job loss.

These government-directed restrictions on the mortgage markets could prolong the recession and hamper economic recovery. Former Federal Reserve Chair Ben Bernanke made this point in 2011 when he observed that "the housing sector has been a significant driver of recovery from most recessions in the United States since World War II." FHA and the Enterprises should support economic recovery by serving their key countercyclical role, not hindering it by excessive withdrawal from the market.

Further, given the current national conversation around systemic economic inequities for people of color, this is no time to double down on already low homeownership rates in Black communities and other communities of color. Credit overlays will not only deter first-time homebuyers, but also prevent existing homeowners of color from refinancing and benefiting from historically low interest rates, further locking them out of the prospect of building wealth through homeownership.

We urge FHA to immediately rescind and revise its mortgage letter requiring a 20% indemnification requirement for validly underwritten loans that go into forbearance post-closing but before the loans can be insured. Similarly, we urge FHFA to rescind and revise its announced penalty of 500-700 basis points on loans similarly situated so that these loans are insured/purchased without the punitive pricing and indemnification requirements that are contributing to market-wide credit overlays. These loans can easily be absorbed into the otherwise strong balance sheets of these institutions. Singling out this narrow risk in a way that creates such a disproportionate burden on homebuyers and lenders alike is neither justified nor prudent.

Sincerely,

Asian Real Estate Association of America
Atlanta Neighborhood Development Partnership
Center for Responsible Lending
Center for Community Progress
Community Home Lenders Association
Consumer Federation of America
Consumer Action
Enterprise Community Partners
Habitat for Humanity International
Housing Partnership Network
The Leadership Conference for Civil and Human Rights
Local Initiatives Support Corporation (LISC)
Manufactured Housing Institute
Mortgage Bankers Association
NAACP
National Association of Affordable Housing Lenders
National Association of Hispanic Real Estate Professionals
National Association of Home Builders
National Association of Local Housing Finance Agencies
National Association of Real Estate Brokers

National Association of REALTORS®
National Community Reinvestment Coalition
National Community Stabilization Trust
National Consumer Law Center (on behalf of its low-income clients)
National Council of State Housing Agencies
National Fair Housing Alliance
National Housing Conference
National Housing Resource Center
National League of Cities
National NeighborWorks® Association
National Urban League
Prosperity Now
SKA Marin
UnidosUS
US PIRG
Whalen Global Advisors LLC

cc: The Honorable Stephen Mnuchin, Secretary of the Treasury
The Honorable Lawrence Kudlow, Director, National Economic Council
The Honorable Mike Crapo, Chairman, Senate Banking, Housing, and Urban Affairs Committee
The Honorable Sherrod Brown, Ranking Member, Senate Banking, Housing, & Urban Affairs Committee
The Honorable Maxine Waters, Chairwoman, House Committee on Financial Services
The Honorable Patrick McHenry, Ranking Member, House Committee on Financial Services