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

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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