April 7, 2020

The Honorable Steven T. Mnuchin
US Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Jerome H. Powell
Chair
Federal Reserve Board
20th Street and Constitution Ave, NW
Washington, DC 20551

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

Dear Secretary Mnuchin, Chair Powell, and Director Calabria:

We represent some of the largest independent real estate mortgage companies and are affiliated with residential real estate firms across the US. We thank you for your leadership during the on-going COVID-19 crisis and your efforts to provide guidance to businesses after the passage of the "Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act).

We ask for your attention to the unintended, negative consequence of the CARES Act provision that extended forbearance for up to 360 days for all borrowers with federally-backed mortgages who request it. The provision is important for borrowers who have been negatively impacted by COVID-19, lost their jobs or have had their incomes reduced due to COVID-19; however, it has caused serious liquidity problems in the servicing sector which has, in turn, eroded lending to first-time, low-income, and minority borrowers. We urge you to provide immediate support for the servicing industry so that lenders can resume lending to otherwise qualified borrowers.

As you know, one of the primary factors determining the ability to extend credit and the rates at which credit will be extended are Fair Isaac Corporation (FICO) scores. First-time homebuyers, minorities and low-income borrowers, on average, have traditionally had lower FICO scores than non-minorities and higher-income borrowers and many fall under 680. After the passage of the CARES Act, we saw investors quickly respond by refusing to purchase loans with borrower FICO scores under 680 and caps on debt-to-income ratios of 43 percent. We have also seen the cessation of bond products that are critical for underserved borrowers. These overlays have occurred because servicers are unwilling to service loans at reasonable rates because they fear bankruptcy if they are forced to continue to make payments to investors, using up their precious capital, while a majority of borrowers could request forbearance. Ginnie Mae anticipates implementing a Pass-Through Assistance Program (PTAP), which we support, through which issuers with a principal and interest shortfall may request that Ginnie Mae advance the difference between available funds and the scheduled payment to investors. However, it will not address Fannie Mae, Freddie Mac, or private-label securities, nor will it address advances of taxes and insurance on loans backing Ginnie Mae securities.

We urge your immediate action to correct this servicing liquidity crisis. We support the statement issued by several real estate industry trade organizations on April 4 which agrees that the established forbearance framework is appropriate, as it gets help to the most people as quickly as possible. But the scale of this forbearance program could not have been foreseen by mortgage servicers, or fully anticipated by regulators. Not taking swift action, will prevent access to credit for a significant number of qualified borrowers and disproportionately affect first-time homebuyers and underserved communities who need it the most.

Sincerely,

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