



March 27, 2020

Dr. Mark Calabria, Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, DC 20219

Dear Dr. Calabria:

The National Council of State Housing Agencies¹ (NCSHA) urges you to take immediate steps to aid state housing finance agency (HFA) customers of Fannie Mae and Freddie Mac (the GSEs) in meeting their urgent liquidity needs as they continue to work to assist homeowners and potential homebuyers affected by COVID-19.

State HFAs were created by their state governments to address the homeownership and rental housing needs of their states. As a group, they are the primary mission-based source of mortgage financing for lower-income households operating in their state, as well as in the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. In 2018, state HFAs provided more than \$27 billion of financing to help more than 156,000 households achieve homeownership. HFAs have partnered with Fannie Mae and Freddie Mac to extend billions of dollars in credit to tens of thousands of homebuyers over the past several years.

HFAs share the federal government's concern that those who are experiencing a temporary loss of income may be unable to make their mortgage payments for a number of months to come because they cannot report to work or are suffering serious income losses. We appreciate the various recent directives you have issued to the GSEs to lessen the financial stress that COVID-19 has placed on so many American homeowners. Yet those policies, in combination with existing seller-servicer requirements, will impose extreme financial pressures on HFAs that will undermine their ability – and unique responsibilities – to deliver housing help to many who need it most and place serious financial strains on them.

State HFAs Serve the Hardest-to-Reach Homebuyers in Their States

HFAs generally serve borrowers and market segments that typical GSE seller-servicers do not. HFA borrowers are likely to have lower incomes, purchase lower-priced homes, and employ higher down-

¹ NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

payments than the average GSE borrower. Additionally, HFA borrowers are more likely to be persons of color, many of whom lost significant ground as homeowners during the last recession.

State HFAs are also fundamentally different from other GSE servicers in their structure and mission. They are state-chartered authorities established to help meet the affordable housing needs of their states' residents, yet they do not receive public funding for their operations. They generate their financing and run their enterprises largely with their own resources, balance sheets, and capital markets executions. Some of them have limitations on borrowing funds, which means traditional sources of lender liquidity will not work for them.

At the same time, state HFAs operate under strict government oversight and strong transparency requirements. To the extent their programs generate income, those monies are, by state law and regulation, invested in the agencies' affordable homeownership and rental housing activities.

HFAs Need Relief from Making P&I Advances or a Source of Liquidity to Advance Monthly Payments to MBS Investors

GSE-backed COVID-19-impacted homeowners are eligible for up to 12 months of mortgage payment forbearance, meaning that they might not make payments for at least one year. While this forbearance will provide necessary financial relief to affected homeowners, it will have a major negative impact on HFA mortgage operations and finances. Some of these include the following:

- HFAs that sell their mortgages to a "master servicer" are usually required to advance P&I when homeowners do not make their mortgage payments so that the MBS investors receive their regularly scheduled payments.
- GSE credit guarantees were never meant to cover situations such as prolonged, government-mandated mortgage payment relief – a new kind of credit event – that no one could have anticipated.
- HFAs, nor any other servicer, is able to remit P&I payments to MBS investors monthly for a significant portion of their portfolios or over a prolonged period of time.

We recommend that the GSEs provide forbearance to its HFA seller-servicers and advance the full scheduled payments to investors for homeowners not able to make their payments because of Coronavirus-related reductions in income, without any penalties or declaring the HFAs in default. Ultimately, what they would be doing is "advancing" funds that ultimately will come in and be repaid, but over time. Such forbearance would protect HFAs against catastrophic losses and send a strong message to MBS investors that markets will remain liquid and investors will receive their payments.

We also recommend that the GSEs waive their requirements for HFAs to buy back loans when borrowers are delinquent because of the impacts of COVID-19. If these requirements are not waived, HFAs will be forced to buy back millions of dollars in loans each month as their respective thresholds are reached.

Another important step is for the GSEs to provide an outlet or liquidity for loans that were made and closed to employed, financially healthy homeowners, but now, because of COVID-19, are impacted and not able to make payments. These loans are not now eligible to be pooled into an MBS and will need to be held on the books of the HFA for a number of years to come. We recommend the GSEs consider ways to include such loans in MBS or provide liquidity to their seller-servicers to compensate them for this Coronavirus-related problem.

Fannie Mae and Freddie Mac have used their HFA Preferred and HFA Advantage programs, respectively, to help HFAs assist homebuyers. The agreements defining these programs might be effective vehicles to provide efficiently the relief and flexibility we seek. We hope FHFA will be supportive of these efforts.

I look forward to talking to you and your staff to discuss the HFAs' particular needs and solutions designed to address them as soon as possible.

Sincerely,

A handwritten signature in black ink, appearing to read "Garth Rieman", with a long horizontal flourish extending to the right.

Garth Rieman

Director of Housing Advocacy and Strategic Initiatives