

June 9, 2020

The Honorable Dr. Benjamin Carson
Secretary
US Department of Housing and Urban Development
Washington, DC 20410

Dear Secretary Carson:

The undersigned organizations, representing a broad cross-section of the housing and financial services industry, write to express our concern with the recently announced Federal Housing Administration (FHA) policy requiring lenders to provide 20 percent indemnification (of the original loan amount) for up to two years in relation to borrowers who enter into forbearance due to COVID-19-related hardship after closing and prior to FHA insuring their loan. While we understand FHA's desire to limit risk and exposure during uncertain times, we believe the resulting burden on the lender will have the effect of severely limiting access to FHA-insured loans for homebuyers. In the interest of maintaining a well-functioning housing market during this crisis, we urge FHA to revise Mortgagee Letter (ML) 2020-16 and commit that it will insure all otherwise-eligible loans that enter into forbearance shortly after closing without any indemnification requirements or other restrictions.

FHA's historic role is to provide access to mortgage financing to a broad range of borrowers, a role that is particularly critical when access to private credit is restricted. The current health and economic crisis is exactly the type of period during which FHA-insured financing is most necessary to keep the housing market operating smoothly and Americans sheltered. The excessive indemnification requirements in ML 2020-16 will effectively force lenders to impose higher credit and financial overlays to protect against risks that they cannot control during the underwriting process. We have seen a similar response to the GSEs' recent policy to charge steep loan level price adjustments, and to stop purchasing certain refinance loans altogether, if a borrower seeks forbearance after closing but prior to delivery.

These overlays will severely limit access to FHA-insured financing for the borrowers who need it the most, disproportionately impacting low- and moderate-income families, first-time homebuyers, and borrowers of color. By insuring loans that enter into forbearance due to COVID-19-related hardship shortly after closing without penalties or further restrictions, FHA can promote access to credit while actively working to mitigate the harmful economic and financial impacts of the virus.

Indemnification is a tool for FHA to address underwriting and eligibility errors, not to avoid the risks of adverse market conditions. Given the need for FHA to embrace its role as a counter-cyclical supporter of the housing market in this time of crisis, we request that FHA immediately revise ML 2020-16 and announce that it will insure loans that enter into forbearance due to COVID-19-related hardship shortly after closing. Thank you for considering this request.

Sincerely,

American Land Title Association
America's Homeowner Alliance
Asian Real Estate Association of America

Center for Responsible Lending
Community Home Lenders Association
Credit Union National Association

Mortgage Bankers Association
National Association of Affordable Housing Lenders
National Association of Hispanic Real Estate
Professionals®
National Association of Home Builders
National Association of Real Estate Brokers
National Association of REALTORS®

National Council of State Housing Agencies
National Fair Housing Alliance
National Housing Conference
The Real Estate Services Providers Council
(RESPRO)
The Realty Alliance