FEDERAL HOUSING FINANCE AGENCY
Office of the Director

April 27, 2020

Mr. Vince Malta
President
National Association of Realtors
500 New Jersey Avenue, NW
Washington, D.C. 20001

Dear Mr. Malta:

Thank you for your letter of March 27, 2020 and the joint letter of April 7, 2020, from a group of real estate mortgage companies, both concerning the liquidity issues facing the servicing industry as a result of the COVID-19 national emergency. Furthermore, I enjoyed discussing this and other matters of current concern during our phone call on April 17.

Prior to the President declaring the pandemic a national emergency on March 13, the Federal Housing Finance Agency (FHFA) had taken action to support the market and provide relief to renters and borrowers with a mortgage backed by Fannie Mae or Freddie Mac (the Enterprises). These actions offer peace of mind to Americans who should not have to worry about losing their homes during this pandemic. They also set standards for the rest of the market.

FHFA has taken a variety of actions during COVID-19. For families facing foreclosure before this crisis began, FHFA directed the Enterprises to suspend all foreclosures and evictions for at least 60 days. Also, for homeowners struggling to pay their mortgage because of a loss of income or other COVID-related hardship, the Enterprises are offering mortgage forbearance for up to 12 months. For renters, FHFA directed the Enterprises to provide forbearance to multifamily property owners on the condition that they suspend evictions of tenants struggling to pay rent because of the pandemic. To address frictions in the mortgage origination process created by social distancing and stay-at-home orders, FHFA directed the Enterprises to streamline the appraisal, employment verification, and loan closing processes for 90 days. To support the secondary market, FHFA authorized the Enterprises to enter into dollar roll transactions, which provide liquidity to investors in mortgage-backed securities (MBS).

As the economic impact of COVID-19 evolves, FHFA took action to address the unique liquidity challenges facing mortgage servicers. On April 21, FHFA announced a four-month limit on servicer advance obligations for loans in forbearance and instructed the Enterprises that loans in COVID-19 forbearance shall remain in MBS pools for at least the duration of the forbearance plan. And, on April 22, FHFA temporarily approved the purchase of certain single-family mortgages in forbearance that meet the Enterprises' eligibility criteria.

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Regarding the issue of creating a liquidity facility for mortgage servicers, the most recent data and reports from servicers indicate that the vast majority have the capital to remain solvent for the next two months. If the current liquidity pressures become more acute or continue longer than what the capital positions of most servicers meet, then it may become prudent for Congress or the Federal Reserve to intervene. Only the Federal Reserve and the U.S. Department of the Treasury can authorize a 13(3) liquidity facility. By contrast, a principal statutory duty of the FHFA Director is to ensure that the Enterprises operate in a safe and sound manner, including maintenance of adequate capital. With a current combined leverage ratio of approximately 240 to 1, the Enterprises are severely undercapitalized and, therefore, cannot support such a facility on their own. However, FHFA is preparing the Enterprises to enter into subservicing arrangements in the event that transfers become necessary for any of the servicers that do business with Fannie Mae and Freddie Mac.

Under current law, nonbank servicers do not have a federal financial regulator, and the only means available to FHFA to oversee these counterparties is through contractual provisions between the counterparties and the Enterprises. That is why I have asked Congress to grant FHFA the authority to examine third parties, including nonbank servicers, that do business with the Enterprises. The Financial Stability Oversight Council (FSOC) and the U.S. Government Accountability Office (GAO) have also recommended this policy. Additionally, in January 2020, FHFA issued for comment, proposed guidance that would have increased the capital and liquidity requirements for nonbank mortgage servicers.

Thank you for writing to share your perspective. It is critical for FHFA to receive input from a range of stakeholders. FHFA and the Enterprises will continue to monitor data as well as new and evolving challenges facing borrowers, renters, lenders, servicers, and investors as a result of the COVID-19 national emergency, and we will update our policies accordingly.

Sincerely,

Mark A. Calabria

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