COMMUNITY
Home Lenders Association, Inc.
2101 Wilson Boulevard, Suite 610
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May 6, 2020

Refinance Option for Borrowers with Temporary Income Loss

Hon. Ben Carson
Secretary
Department of Housing and Urban Development
451 7th Street SW
Washington DC 20410

Hon. Mark Calabria
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Bruce W. Lammers
Administrator, Rural Housing Service
1400 Independence Ave., SW, Rm 5014
Washington, DC 20250-0701

Robert Wilkie
Secretary, Veterans Administration
810 Vermont Avenue NW
Washington DC 20420

Dear Secretary Carson, Director Calabria, Administrator Lammers, and Secretary Wilkie:

As the country begins to turn its coronavirus focus towards an economic recovery, we write to request that you take action to make it easier for borrowers in forbearance that get their jobs back to refinance their loan, to lower mortgage payments and fund the partial claim that would otherwise result from forbearance.

After the 2008 housing crisis, Fannie Mae and Freddie Mac created HARP. This successful program allowed millions of Americans to lower their mortgage payments through a refinance at a lower interest rate – notwithstanding that they were underwater on their loan (i.e. the loan exceed current home value). This was a win/win for the borrower and the GSEs, which were already responsible for losses on the loan.

A similar opportunity presents itself in the context of COVID-19. We expect there will be a significant number of borrowers who went into forbearance pursuant to their right under the CARES Act, due to a temporary job loss that left them unable to make their mortgage payments. With the expected stabilization of our economy as the short-term job losses reverse themselves later this year, significant numbers of such families will be able to resume mortgage payments.

Under guidelines for federally backed loans, borrowers will be entitled to their appropriate loss mitigation option under the respective programs' established waterfalls. For those borrowers who simply regain their jobs (or another job at a comparable salary), the likely option will be a partial claim (FHA), principal forbearance [Fannie, Freddie, VA), or mortgage recovery advance (RHS).

After being apprised of their loss mitigation option that will be offered by a servicer, a borrower should also have the opportunity to refinance their loan in lieu of going through the partial claims process. Currently, this would generally not be permitted, due to underwriting guidelines for federally backed mortgage loans that generally do not permit refinances of loans with a recent default.

If a borrower in such a circumstance otherwise qualifies for a refinance loan (meeting DTI, LTV and other guidelines), the fact that the borrower utilized forbearance should not disqualify the borrower for a loan, especially since the borrower has regained a job and an ability to resume making mortgage payments

We would note that without this flexibility, a borrower that wants to refinance their loan would have to first go through the extensive process of obtaining a partial claim or principal forbearance from their servicer, and then wait the requisite period to meet the program's requirements regarding period of payment performance before they could obtain the loan refinance.

Further, it is critical that such loans should not have higher premiums, LLPAs, or other fees than a comparable loan where the borrower did not exercise forbearance because of a temporary job loss.

We believe that any borrower should take advantage of such a refinance only if they are aware of their loss mitigation options and instead knowingly elect a loan refinance. We would also support establishment of appropriate consumer protections to ensure that a refinance is in the best interest of the borrower, such as requiring that the mortgage rate on the new loan is no higher than the current loan rate.

Finally, we would point out that this option will likely reduce recorded mortgage loan losses by these federally backed mortgage loan programs. For example, a partial claim, with the deferred loan payment recast at the end of the loan, would be recorded as a loss on FHA books. However, a refinance could avoid this loss, which is appropriate if the borrower has regained their job, can afford loan payments under a refinanced loan, and can pay back the partial claim amount.

We appreciate your consideration of this proposal.

Sincerely,

COMMUNITY HOME LENDERS ASSOCIATION

CC: Hugh R. Frater, CEO, Fannie Mae
David Brickman, CEO, Freddie Mac