



CHLA Calls on FHA to Immediately Withdraw Forbearance Indemnification Policy

Policy Discourages Loans to Lower Income, Lower FICO Borrowers

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The Community Home Lenders Association (CHLA) today called on FHA to immediately rescind the policy it announced yesterday to impose a 20% first loss penalty against lenders that originate a validly underwritten FHA loan that goes into forbearance post-closing but before the loan can be formally insured.

"The Community Home Lenders Association calls on FHA to immediately rescind its policy announced yesterday to impose a 20% first loss penalty on lenders that originate well underwritten loans that go into forbearance before the loan can be formally insured," said Scott Olson, CHLA's Executive Director.

This policy basically encourages lenders to create credit overlays based on FICO score, the type of job the borrower holds, and other inappropriate factors. CHLA calls on FHA to work with Congress, lenders and consumer groups to re-think and re-work the appropriate FHA forbearance policy to better balance taxpayer and borrower interests."

FHA's policy (enclosed below) is similar to recent actions by FHFA and the GSEs, which imposed significant upfront penalties of up to 7% for sale of validly underwritten loans that go into forbearance before they can be sold to Fannie Mae and Freddie Mac.

"The combination of Congress mandating forbearance for any borrower that asks for it and then imposing financial penalties for making a loan to a borrower that exercises that right after closing the loan will ironically come back to hurt the very types of borrowers forbearance is meant to protect. "

<https://www.hud.gov/sites/dfiles/OCHCO/documents/2020-16hsngml.pdf>