Testimony of
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Subcommittee on Oversight and Investigations

Committee on Financial Services

U.S. House of Representatives

Hearing on:

"Protecting Homeowners During the Pandemic:

Oversight of Mortgage Servicers"

Thursday, July 16, 2020

Chairman Green, Ranking Member Barr, and Members of the Subcommittee:

My name is Edward DeMarco and I am the President of the Housing Policy Council (HPC). HPC is a trade association comprised of the nation's leading firms in housing finance and dedicated to advancing responsible and sustainable homeownership opportunities.[1]

Thank you for inviting me to testify on how mortgage servicers are responding to the challenges facing homeowners because of the novel coronavirus.

These challenges facing the nation's homeowners are real and substantial. Many homeowners are in deep economic distress resulting directly or indirectly from the pandemic. Also, while anyone is vulnerable to the virus, the health and economic costs have disproportionately affected communities of color and lower-income households.

From the outset of this emergency, HPC members have been committed to keeping individual borrowers and families in their homes. We have been doing this in partnership with many others, including government agencies and federal regulators, Congress, nonprofit and community organizations, as well as other stakeholders, including those testifying with me today.

In passing the CARES Act, Congress has provided support and direction to millions of households nationwide and to numerous organizations, including mortgage servicers, that are delivering relief to American homeowners. HPC thanks you and commends you for developing and passing a law of such magnitude in very short order.

In this statement, I will summarize the actions HPC member servicers have taken to date. It is important to note, however, that we are still in the early stages of the COVID-19 health crisis and its economic ramifications. There are many challenges ahead of all of us. We must continue to work together as we navigate these treacherous and uncharted waters.

Mortgage Servicing Support of Homeowners Affected by the Coronavirus Pandemic

The response of HPC members to this crisis has been shaped by lessons learned during the Great Recession and subsequent natural disasters. This is a mortgage servicing industry far different from the one I encountered as a regulator during the Great Recession. The capacity and commitment to serve customers and the tools available to provide near-term relief and long-term solutions is far greater than it was twelve years ago.

[1] The Housing Policy Council is a trade association comprised of the leading national mortgage lenders and servicers, mortgage and title insurers, and technology and data companies. HPC advocates for the mortgage and housing marketplace interests of its members in legislative, regulatory, and judicial forums. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable homeownership opportunities in support of vibrant communities and long-term wealth-building for families. A list of HPC members may be found on our website: www.housingpolicycouncil.org

Most importantly, the challenges facing homeowners today are not the result of poor underwriting standards or inappropriate business practices. This pandemic is a national health crisis, and the steps taken to combat it have had enormous economic consequences.

Thus, there are unique challenges posed by this crisis. In the Great Recession, it took three years for unemployment to go from its trough to its peak. With the pandemic, we experienced that in just two months. In the Great Recession, delinquency rates grew slowly and then accelerated, taking six years to grow from the low point to the peak. With the pandemic, we have gone from near-record low delinquency rates to a 9 percent forbearance rate in less than two months.

In response to the rapid development of this crisis, HPC members and other mortgage servicers:

- Shifted virtually all their operations out of call centers and office buildings to kitchens and family rooms.
- Trained their staffs remotely and modified technology to manage the enormous inflow of borrower inquiries.
- Set up automated on-line tools – in some cases in just a few days – for borrowers to educate themselves and request payment relief using efficient and streamlined processes.
- Began offering homeowners forbearance options before the passage of the CARES Act.
- Extended forbearance to homeowners that do not have federally backed mortgages.
- Executed against an evolving series of program and regulatory announcements from FHA, VA, USDA, Ginnie Mae, the GSEs, FHFA, and the CFPB.

The CARES Act required forbearance for borrowers in federally backed mortgages that contact their servicer and declare a financial hardship. By late May, just two months since enactment of the CARES Act, nearly 4.8 million households were on a forbearance plan.[2] This happened because servicers, both bank and nonbank, are better prepared and more nimble today than they were in the past crisis. For example, many servicers established online portals to provide educational information for consumers with immediate access to automated tools to request forbearance.

According to Black Knight, by the end of May, 12.3 percent of FHA and VA loans were in forbearance and 7.1 percent of GSE loans were in forbearance. Servicers of those loans are required by the CARES Act to offer forbearance.

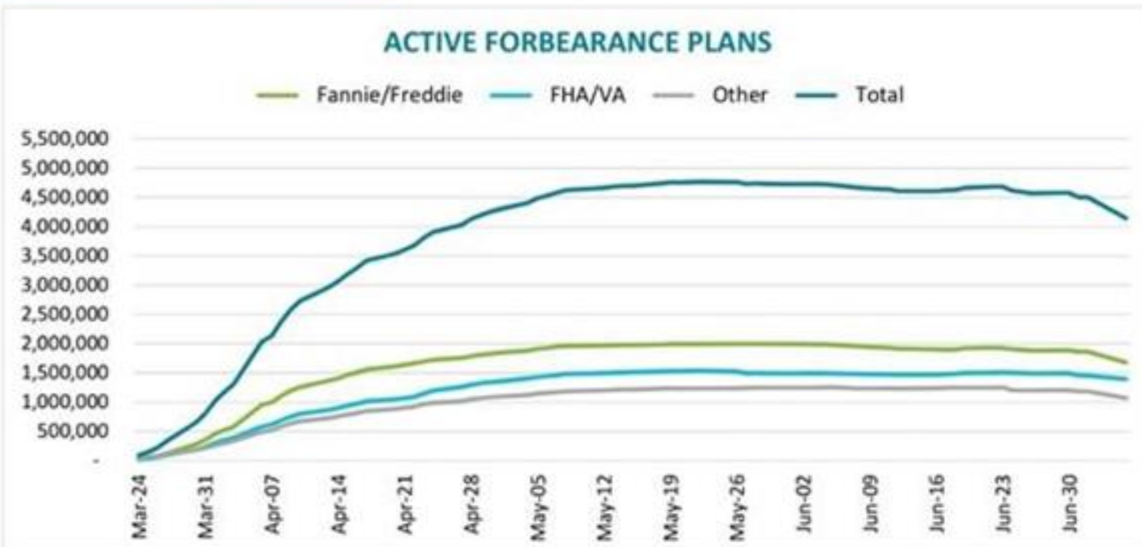
Yet for non-federally backed mortgages, Black Knight reported 9.6 percent of such loans were also in forbearance by the end of May. These include bank portfolio loans and loans in private-label securities. This is a clear indication that bank portfolio lenders and other investors have also responded voluntarily, without a federal directive, providing borrower payment relief at an even greater rate than we see for GSE loans.

[2] Forbearance data reported in this section are taken from weekly reports prepared by Black Knight Financial Services' Data and Analytics Division. These reports start with individual mortgage servicer data recorded in MSP, Black Knight's mortgage servicing platform, which are then extrapolated to represent all outstanding mortgages.

BLACK KNIGHT
FINANCIAL SERVICES

Data as of July 6, 2020

	Fannie & Freddie	FHA & VA	Other**	Total
Loans in Forbearance*	1,679,000	1,396,000	1,070,000	4,145,000
UPB of Loans in Forbearance ($Bil)*	$354	$240	$305	$899
Share of Loans in Forbearance*	6.0%	11.5%	8.2%	7.8%
Active Loan Count (Mil)*	27.9	12.1	13.0	53.0



In addition to providing assistance to borrowers facing economic disruption to their ability to pay their mortgage, mortgage companies also have responded to strong customer demand for both purchase mortgages and mortgage refinance. With interest rates again finding new lows, both the refinance market and now the purchase market are defying expectations. That these loans are getting made in the midst of stay-at-home orders, is a testament to resourcefulness, technology, and regulatory flexibility. From automated methods for verifying income to appraisal accommodations to remote notarizations, the industry, program administrators, and regulators have successfully adapted on the fly.

In short, the housing finance industry is delivering mortgage relief to those who need it and lowered monthly mortgage payments for many households.

As a result of the initial spike in forbearance requests, liquidity challenges facing nonbank mortgage servicers were a concern in March and April. Since that time, a combination of policy actions and improving market conditions restored stability and a measure of calm. With Ginnie Mae, FHA, FHFA, and the GSEs each announcing program changes that put more certainty around servicer liquidity needs, market confidence improved, and markets responded with increased access to liquidity.

I have spent a lot of time talking with mortgage servicers the past few months. What I have witnessed is a group of firms working under difficult circumstances and with a good bit of uncertainty trying to do their best for their customers. When mistakes are made, or misunderstandings occur, servicers strive for prompt escalation and swift resolution.

Mortgage Servicing Stakeholders

I want to acknowledge the partnerships and information sharing that has marked the past four months. The industry itself has tried to work in a coordinated and consistent fashion. Since the start of the pandemic, we have continued to compare notes on trends and challenges. For many weeks, HPC convened daily calls with its mortgage servicers to identify what consumers needed and to help drive best practices in servicer response.

But this has not been limited to just industry. HPC participates in two, large, ongoing collaboratives that involve industry representatives along with representatives from think tanks, housing counseling organizations, and advocacy and civil rights groups. These collaboratives have been meeting regularly to share concerns and ideas. In some cases, the conversation has led to mutual advocacy for enhancement to program rules or for regulatory changes to meet the current circumstances.

Servicer response to customer needs during this pandemic also has benefited from constant interaction with a wide range of regulators, federal program administrators, and government-sponsored enterprises. None of us are operating in a vacuum. Instead, ongoing communication and information-sharing have enhanced understanding and led to numerous program and regulatory changes that have greatly enhanced servicers' ability to respond to their customers.

For example, the Department of Housing and Urban Development, including officials responsible for the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae), have been responsible and responsive partners. Our ongoing dialogue, and their willingness to listen and respond to ideas and concerns shared by industry and other stakeholders has exceeded anything I have seen from HUD during my career. This does not mean we agree on everything; it means we believe these officials have been willing to engage and have responded appropriately to their own governing laws and objectives. Ginnie Mae's Pass-Through Assistance Program (PTAP) was one of the initial federal program responses that directly added stability to servicing in the government-backed mortgage sector.

The Consumer Financial Protection Bureau has also been a thoughtful partner, not just in working with industry representatives but in the approach they have taken to consumer education. HPC's website's first link for consumers seeking information about mortgages and COVID-19 is to the CFPB's excellent webpage "Mortgage and housing assistance during the coronavirus national emergency" that was initially developed by CFPB and is now jointly sponsored with HUD, the Federal Housing Finance Agency (FHFA), and the Department of

Veterans Affairs (VA). CFPB has continuously improved this information portal and has been receptive to feedback.

Importantly, CFPB has recognized that certain requirements under Regulation X, which were designed for standard loss mitigation situations, do not work well for consumers in a CARES Act forbearance plan. Accordingly, they have signaled a willingness to provide additional flexibility and guidance, including a recent regulatory change that allows some exceptions to the standard customer notification rules.

The Federal Housing Finance Agency and the government-sponsored enterprises for which it is conservator have also made a series of programmatic changes and clarifications over the past few months that have contributed clarity and added more market certainty with regard to servicer implementation of the CARES Act for GSE-backed loans. Two critical announcements to note are (1) the April announcement that servicers would be limited to advancing principal and interest payments for four months, thereby relieving a major liquidity challenge that advancing for up to twelve months could have imposed; and (2) the May issuance of guidance on the new deferral program, under which the repayment of forborne principal and interest could be deferred to the back end of the loan, thereby relieving customers and servicers of a major uncertainty regarding post-forbearance repayment.

HPC has also been in ongoing dialogue with VA and USDA, both of which have made clear that their natural disaster programs are available for use during this national emergency and that they will be making additional programmatic changes to streamline the use of these programs.

No discussion of public-private partnership in the mortgage servicers response to customer needs in this pandemic would be complete without acknowledging the critical role played by the Federal Reserve. Their substantial investment in federally backed mortgages have lowered rates and enhanced liquidity in a manner that has benefitted borrowers and servicers.

Understanding the Challenges Ahead

As enormous as the effort to quickly assist families facing coronavirus-based disruptions to their financial circumstances has been, many challenges threaten our ultimate success. The two biggest are (1) the unknown duration of the pandemic and the consequent economic disruptions and (2) the transition from short-term payment relief to permanent solutions, which must be suitable for each affected household, addressing their unique financial circumstances. Prompt and effective borrower – servicer communication, combined with stability in program rules, will be key to successful resolution of forbearance.

Since late May, we have seen a net decline of more than 600,000 families in forbearance plans and some measure of economic stabilization. Some borrowers are asking to end their forbearance plan as they return to work or otherwise achieve greater confidence in their ability to repay their mortgage. This is certainly good news. But we are also seeing adverse trends in the spread of the virus and numerous states contemplating pauses or reversals in their re-opening plans. Also, certain industries, such as airlines, are considering large-scale furloughs or layoffs as the outlook for the travel and hospitality industries remains bleak.

Put together, it is hard to have confidence that forbearance requests will not grow again. We simply do not know yet. Servicers stand ready to play their important role in responding to additional requests for assistance.

Transitioning from forbearance to a longer-term solution requires dedicated effort from the borrower and servicer to ensure the best resolution. The CARES Act appropriately allows flexibility for customers to receive forbearance in increments, up to the full twelve months to which they are entitled, and this flexibility is a benefit for both borrowers and servicers. For example, the sooner a borrower begins repaying the mortgage, the sooner he or she resumes the wealth-building opportunity that homeownership provides. Meanwhile, spreading the transition over several months helps servicers as well as consumers, permitting servicers to allot resources over an extended period of time, rather than concentrating them to handle spikes in post-forbearance requests.

When a borrower is ready to resume monthly payments, borrower contact with the servicer is critical to ensure a seamless transition and to ensure there is certainty among all parties regarding the repayment of the forborne amounts. The options available at this point are dependent on several factors, some unique to the loan program and some based on the borrower's own circumstances, but options include short-term repayment, repayment at the end of the loan term, or longer-term repayment by adding the outstanding payments into the loan balance.

FHA, VA, USDA, Fannie Mae, and Freddie Mac each have certain program requirements governing post-forbearance repayment options, but all are designed to produce the same basic outcome for consumers. These options have themselves been altered or refined over the past few months, and we expect further changes may be made.

Borrowers also are not uniform in their circumstances, post-forbearance. Some borrowers will have been in forbearance only a few months and may even have continued to pay their mortgage for some or all of this time. Others will be in forbearance longer. Some will have their pre-forbearance income restored and will be ready to resume their pre-forbearance payments; others will have a permanent reduction in their income and may not be able to afford their pre-forbearance mortgage payment. In any case, it will be important for borrowers to accurately explain to their mortgage servicer their financial situation and capacity to repay so that the servicer may identify the post-forbearance approach best suited to address their circumstances.

Some homeowners will want to get back on schedule with their mortgage repayment as quickly as they can. A short-term repayment plan may be what they want. For others, repayment deferral will be more appropriate. For those who have experienced a permanent decline in income, a full-blown loan modification may be the best approach.

As I stated at the outset of these remarks, HPC members are committed to do everything they can to keep people in their homes. Inevitably and regrettably, though, this may not be possible for everyone. In that case, borrowers and servicers have two advantages mostly lacking in the Great Recession. First, most borrowers in forbearance have equity, often meaningful equity, in their home, and house prices have remained stable or are even growing due to supply shortages. More than 90 percent of homeowners in forbearance have at least 10 percent equity in their homes. Second, with enhancements introduced by all of the government agencies during the last crisis, servicers have access to better alternatives to foreclosure that protect borrowers and their communities.

The bottom line is this: there is a lot of uncertainty ahead. Transitioning from forbearance to post-forbearance repayment is not a one-size-fits-all proposition. Mortgage servicers will continue to be there to assist their customers through this difficult time.

Future Government Actions

The letter of invitation asked what further actions “the federal government should take to ensure effective borrower protections for the duration of the coronavirus crisis.” We recognize that the pandemic has negatively affected many consumers and communities, and that the beneficial stimulus provided under the CARES Act—including expanded unemployment benefits and the benefits of PPP loans—are beginning to dissipate. Thus, we support additional measures by the Congress to provide fiscal stimulus to hard-hit consumers and communities.

With the forbearance provisions of the CARES Act, Congress already has taken the cornerstone action to assist both borrowers and servicers. Implementation of the CARES Act is well along, aided immensely by various regulatory and program rule changes to align with the CARES Act. Moreover, CARES Act forbearances can extend up to 12 months, into 2021, if needed. The industry is now focused on delivering the customer relief and aiding consumers through exit of temporary forbearance programs. HPC members are not seeking further forbearance legislation at this time but would instead ask Congress and the Committee to continue to monitor the economic circumstance affecting many Americans and the impact of the public health crisis on housing markets.

We do expect there to be additional regulatory and program refinements as we go. HPC and others remain engaged in discussions with the various federal program administrators and regulators. Such ongoing dialogue and partnership should enable us collectively to address emerging issues.

We will continue to keep Congress informed of progress and should a potential need for further legislation emerge, we will certainly engage with this Committee.

Thank you again for inviting me to participate at today’s hearing. The Housing Policy Council and its members look forward to continuing to serve and protect customers during this national health crisis.