THE HPC BULLETIN

A MONTHLY NEWSLETTER

Welcome to the October edition of the HPC Bulletin.

In this month's newsletter you'll find: Ed's Insights and Policy Pulse.

ED'S INSIGHTS

As we enter the fourth quarter of 2022, economic and financial news continues to worsen. Far from being exempt, housing is being hit hard. Later this week, HPC's Executive Council will meet and discuss a range of challenging topics against this backdrop.

Ginnie Mae's new risk-based capital requirement has garnered a lot of attention and concern, understandably so. But I am also focused on two over-arching issues: the factors that make the Ginnie MSR price so volatile in the first place and the broader set of mortgage market liquidity risks, especially with so many storm clouds surrounding financial markets. Again, the Executive Council will dive deep into these two related issues.

HPC is also thinking hard about loss mitigation questions. Should we see a meaningful uptick in delinquencies in the months ahead, the tools available, and the best path forward for some customers, may look different from the past two loss mit cycles, given the prevalence of homeowner equity and existing note rates generally being less than current market rates. HPC has discussions underway with government officials and industry reps to identify and evaluate alternative ways to reduce monthly payments.

Hurricanes Fiona and Ian have left a lot of destruction in their wake. While natural disaster responses are well-formulated, please let the HPC team know of any unique circumstances or questions that may benefit from some collective action.

As Congress heads out for a last month of campaigning ahead of the midterm elections, the Biden Administration remains focused on the racial ownership gap and related questions of equity and affordability in housing. Without much notice, progress *has* been made over the past few years on the racial homeownership gap. While the Hispanic homeownership rate recently declined a bit from its record peak just before the pandemic, it otherwise has recovered from the Great Recession to reach its previous all-time high. And the Black homeownership rate, which was particularly devastated by the Great Recession, has increased from 40.5 percent in 2019 to 45.3 percent today – a 12 percent increase in just three years, despite the pandemic. While a lot of work remains – that can't be overstated – let's build on this progress.

While these issues remain important long-term challenges, HPC has been encouraging federal officials, advocates, and other industry reps to pay close attention to the current market turbulence. As hard as it is to move the home ownership needle, we do not want to be moving backwards again as economic turbulence upsets household income and employment, which could lead to losses in homeownership.

Ed

POLICY PULSE

GSE and Ginnie Mae Seller/Servicer Financial Eligibility Requirements

As we reported in the September newsletter, the financial eligibility requirements for seller/servicers, published simultaneously by FHFA and Ginnie Mae in August, incorporate some changes recommended by HPC, including allowing a significant portion of the unused committed agency servicing advance lines of credit to count toward the GSE liquidity requirement. However, Ginnie's final rule included a new provision imposing a risk-based capital requirement that deducts excess MSRs from net worth and assigns a 250 percent risk weight to an entity's gross MSRs, which could depress the

value of MSRs. HPC met with FHFA staff and Ginnie Mae staff, including President McCargo, immediately after the rule was published and we continue to discuss issues of concern to our members with the Ginnie Mae team on an ongoing basis. We also have discussed with Ginnie a stepwise implementation more akin to what FHFA did when introducing PMIERS for mortgage insurance companies – create a step-by-step progression toward full compliance with the six percent requirement.

Borrowers in Distress in a Rising Interest Rate Environment

As higher interest rates have eroded the ability of existing loss mitigation tools to provide relief for borrowers in distress, HPC has been convening conversations among HPC members, advocates, and thought leaders about maximizing existing options and potential new loss mitigation tools. Several ideas have been circulating across the industry, most with the objective of keeping mortgages in securities to preserve the existing note rates, and use government insurance/guarantee funds, re-amortization, and term extension to reduce the monthly payments. There is also a proposal to use government insurance / guarantee funds to subsidize or “buy down” the rates to reduce the monthly payment. HPC is talking with the Urban Institute about a public event to discuss these ideas as well as a subsequent, private policy roundtable.

Read the Urban Institute’s Blog on Loss Mitigation in a Higher Rate Environment

New Demographic and LEP, Fair Lending Data Collection Requirements

In August, Fannie and Freddie updated their servicing guides to include new fair lending data requirements that obligate servicers to collect and maintain five new data elements in a searchable format for every mortgage loan as of March 1, 2023: the race, ethnicity, age, gender, and preferred language of the borrower(s). HPC has been working with HPC members to collect specific questions about how to operationalize the new requirements. An initial set of responses to our questions from the Enterprises and FHFA provided some clarity. HPC staff will continue to seek additional clarification from FHFA, Fannie Mae, and Freddie Mac where needed. To date, most HPC members have indicated that they will be able to comply with the March 1, 2023 implementation deadline.

Read Freddie Mac’s Announcement

Read Fannie Mae's Announcement

FHFA's Office of Financial Technology

HPC continues to collect member reactions to FHFA's July publication of a Request for Information regarding the use of Financial Technology in Housing Finance. HPC's comments (due on October 16th) and public remarks (October 6th) will acknowledge, but not approve, the establishment of an Office of Innovation at the agency. It is not clear to us that the questions raised in the RFI require a separate office. Nonetheless, HPC's comment letter will affirm that emerging technologies could challenge the underlying precepts of existing regulation and therefore, fresh thinking could be helpful. HPC will offer thoughts on the structure of the office, its scope, and its activities. It is important that the office not supersede the Enterprises' role or expertise in adopting or developing new technologies in partnership with industry. It could, however, support agency staff in reviewing issues such as enhancements to the current Enterprise published data regime, coordinating well-defined and transparent pilot programs, or identifying regulatory obstacles to safe and sound modernization of mortgage markets.

CFPB RFI on Mortgage Refinances and Forbearances

On September 22nd, the CFPB issued an expected RFI on streamlined refinances and modifications – topics that fall under the Ability to Repay and Qualified Mortgage (ATR-QM) Regulation and Regulation X (Reg X) servicing requirements. HPC has repeatedly urged the Bureau to update Reg X to accommodate a streamlined approach that can be used in response to sudden, unexpected, and temporary disruptions such as natural disasters or national emergencies. In HPC's kick-off meeting about the RFI, HPC members established two working groups to develop responses to the 37 questions by the November 28th due date. One group will work on servicing issues and one on origination issues. HPC members expressed general support for the idea that the ATR-QM rule should enable streamlined refinance products so long as the regulation doesn't limit that authority to GSE loans. Members also highlighted that the CFPB may be overstepping its authority by suggesting that the Bureau will play any role in the development of new mortgage products, even if those products would be beneficial to the industry. There was also initial support for encouraging the Bureau to update Regulation X to establish more relevant processes for servicers to assist mortgage borrowers affected by federally declared disasters and emergencies.

Read the CFPB's RFI on Mortgage Refinances and Forbearances

FHA Servicing Defect Taxonomy

HPC continues to work on the development of a more detailed, transparent, and effective servicing defect taxonomy than the one FHA proposed in October 2021. Most recently, HPC developed a defect taxonomy strawman that has become the focus of many productive conversations with advocacy groups. For the last two months, HPC members have collaborated with NCLC and CRL to develop a consensus draft document, based on the strawman, and a cover letter that highlights the areas of agreement and areas where a difference of opinion still exists. Discussions with FHA and the consumer advocates will resume after FHA completes its review and assessment of this HPC-NCLC counterproposal. FHA Commissioner Gordon confirmed in our recent meeting that the defect taxonomy is a priority for her, that her team is now in place to review the draft we submitted, and that she supports our efforts to reach as much agreement as possible directly with the advocates.

Read HPC's Defect Taxonomy Strawman

VA Servicing

HPC staff regularly engage with VA staff on a range of servicing issues encountered by HPC members. In a September call, HPC members were briefed by Andy Trevayne, VA's Assistant Director for Loan and Property Management and Rita Falcioni, the Loan Management Supervisor on several topics. Key takeaways include confirmation that the VA will not extend its Partial Claim Program (PC) beyond its October 28th expiration date but will shortly dedicate two of their eight regional offices (St. Paul and Denver) to full-time PC processing to try to expedite the completion of existing claims. VA officials confirmed that the servicer tier ranking proposed by the VA in April will not be finalized any earlier than January 2023, will not be retroactive, and will have a limited set of metrics, one of which will be the default resolution rate. The staff also reported that an ANPR with a 60-day comment period will be issued shortly that will seek to identify lessons learned about loss mitigation during COVID.

Please send us your feedback. Please email HPC's VP for Public Affairs, Sheryl Pardo, at Sheryl.Pardo@housingpolicycouncil.org with your thoughts on what was helpful in this month's newsletter and what additional information you would like to see on a monthly basis.