THE HPC BULLETIN

A MONTHLY NEWSLETTER

Welcome to the November edition of the HPC Bulletin.

In this month's newsletter you'll find: Ed's Insights, Policy Pulse, and HPC in the News.

ED'S INSIGHTS

Last week, FHFA made a series of long-anticipated announcements.

First, FHFA settled on an approach to updating the use of credit score models. After years of debate about using FICO or Vantage Score or some other option, FHFA settled on using *both* FICO and Vantage Score, including a significant update on the FICO side from the classic FICO that has been in use for about 20 years.

HPC members may recall that HPC worked with six other trades last May on a letter to FHFA requesting that “FHFA provide additional data, a detailed transition plan that is subject to stakeholder input, and ample time for any transition” to a new credit score model. In both her public remarks at the MBA Conference and in discussions with me, Director Thompson has made clear she intends to take that approach. So, in the months ahead, expect both more

information from FHFA and opportunity for industry input into the process and timing of this transition.

As part of the credit score announcement, FHFA also reported that it will move away from the current tri-merge credit report requirement (that is, credit reports from all three major bureaus) to a bi-merge requirement, something that HPC advocated for in our 2018 comment letter to FHFA.

Second, FHFA announced the publication of a new aggregate appraisal data set and an associated "UAD Aggregate Statistics Dashboard." This summary appraisal data is available by geographical area, but not at the loan-level, which prevents stakeholder from performing any substantive modelling or analytic work. While this development may respond, in part, to external advocacy to make the Uniform Appraisal data set public, we view this action as a first step only. This will remain a topic of continued discussion between HPC and FHFA.

Finally, FHFA announced several targeted changes to G-Fee pricing, with a focus on eliminating loan level pricing adjustments for certain mortgages that are highly mission-focused (including first-time homebuyers with less than 100 percent area median income (120 percent in high-cost areas), and HomeReady and Home Possible loans. At the same time, FHFA announced increases in loan level price adjustments for most cash-out refinance loans. FHFA said it was continuing "to review and update the pricing framework to meet objectives set in the 2022 Scorecard…"

HPC will continue to engage with FHFA on each of these topics. With regard to g-fees, I appreciate FHFA's focus on the mission-orientation of some loans, but we should remember that risk-based pricing provides important market signals and helps align risks and returns, including in the CRT market.

Ed

POLICY PULSE

FHFA's Office of Financial Technology

Following FHFA's July publication of its Request for Information regarding the use of Financial Technology in housing finance, HPC's SVP for Capital Markets Mike Gill participated in the October 6th public listening session. Mike's

remarks, which begin at 51:11 of this recording, focus on the structure and scope of the office. In particular, HPC recommends that the office be placed in an existing FHFA division, to avoid regulatory overreach, and that the GSEs retain decision making authority for their own business operations, including designing pilots and selecting vendors. Mike emphasized HPC's concern that the GSEs avoid expansion into the primary market, which should remain the domain of the private sector. HPC's written comments, submitted on October 14th, echo the listening session remarks and go into greater detail about HPC's suggestions for the structure and scope of FHFA's new Office of Innovation. HPC emphasized that it is important for the office to operate within the current FHFA organizational structure and legal authorities, and advocated for FHFA to hire experienced and skilled staff with knowledge in financial innovation. HPC's response also encourages the new office to support the distribution of industry data delivered to the GSEs and notes the office could help inform FHFA leadership about how conflicting state and federal rules create barriers to fintech adoption. HPC also emphasized the need for any new Enterprise technologies to be as consistent as possible with technologies that support Ginnie Mae and PLS mortgage-backed securities and the need for FHFA's new office to look to CISA and Treasury for guidance and best practices related to the protection of consumer data. Finally, while HPC cautioned FHFA against engaging in "tech sprints," the letter does encourage stakeholder dialogue on several issues including sources of market data, standards development, and digitizing the mortgage process.

Read HPC's Response to FHFA's RFI

Ginnie Mae Policy Changes

In response to concerns expressed by HPC and others, Ginnie Mae has amended its pooling restrictions on re-performing loans and extended the implementation deadline for the new risk based capital (RBC) requirement. In June 2020, in response to the COVID pandemic, Ginnie Mae imposed significant restrictions, including six-month seasoning and custom-pooling requirements, on re-performing loans. These restrictions have negatively affected market liquidity for these loans and the securities that back them. In November 2021, HPC and MBA submitted a letter to Ginnie Mae asking that custom-pooling restrictions be lifted. On October 24th, Ginnie Mae announced that it will shorten the re-pooling seasoning requirement for re-performing loans from six months to three months and allow issuers to pool re-performing loans into TBA eligible Ginnie Mae II Multi-Issuer Pools. This policy change will be implemented by the end of Q1 2023 and will be officially published shortly.

Ginnie also announced in October that it will extend the implementation period for the RBC rule by one year, from December 31, 2023 to December 31, 2024, to allow more time for the industry to adapt to the new framework.

Read Ginnie Mae's Re-pooling Press Release

Borrowers in Distress in a Rising Interest Rate Environment

85 percent of mortgage holders have an interest rate below 5 percent - far below today's levels - making it hard for existing loss mitigation tools to provide relief when borrowers run into challenges. As the high interest rate environment shows no signs of abating, HPC staff have expanded their conversations with HPC members and a variety of stakeholders and thought leaders about how to improve loss mitigation tools so they can support borrowers in distress in this higher rate environment. The goal of these discussions is to identify a method for keeping mortgages in securities, so the existing note rate can be preserved through the use of government funds to supplement a reduced monthly payment for the borrower and retain the scheduled remittance to Ginnie Mae MBS holders. On November 7th, HPC will host an in-person conversation for stakeholders, including HPC members, advocates, government officials, technology providers, investors, and thought leaders about loss mitigation tools. At the meeting, the group will lay out the current challenges and concerns, describe one proposal to use government insurance or guarantee funds to subsidize or "buy down" the rates to reduce the monthly payment, and discuss the pros and cons of this and other ideas that may emerge.

VA ANPR on Loss Mitigation

The VA published an Advance Notice of Proposed Rulemaking regarding Loss Mitigation Options for Guaranteed Loans on October 17th, establishing a 90-day comment period that concludes on January 17, 2023. The ANPR sets out 12 specific questions but also invites comment on any other topic that will "help VA as it explores whether to expand the incentivized loss-mitigation options…." In particular, the VA notes its interest in understanding whether the loan deferment program is a viable loss-mitigation tool, given that the temporary loan deferment home retention option established in response to the pandemic was underused compared to the temporary partial claim and refund modification programs. HPC's VA Loan Servicing working group, which will develop HPC's response to the ANPR, collected initial reactions at an October 21st meeting and will meet regularly over the comment period to develop a

comprehensive response to this rulemaking. Contact Matt Douglas at Matt.Douglas@housingpolicycouncil.org to join this working group.

Read the VA's Loss Mitigation ANPR

Homeowner Assistance Fund Implementation

HPC continues its close collaboration with other trade associations, state program administrators, US Treasury staff, and other federal officials on Homeowner Assistance Fund implementation issues. In recent weeks, HPC has focused on structural issues that interfere with program delivery in some states. Of note, states and servicers have found it difficult to execute a program that simultaneously combines HAF assistance with a loan modification. GSE and government program rules allow a borrower who is current, by virtue of a HAF reinstatement, to qualify for a modification, but the process is cumbersome; the servicer must evaluate the borrower for imminent default, using financial information provided by the homeowner. Further, this evaluation would allow for a loan modification, but not a streamlined COVID-19 Recovery modification. Accordingly, in October, HPC joined the National Council of State Housing Agencies in delivering a letter to FHA Commissioner Julia Gordon requesting that FHA extend eligibility for COVID-19 Recovery Home Retention Options to homeowners who have received HAF assistance and who verbally attest that they need additional assistance to reduce their monthly mortgage payments. HPC's weekly servicers call continues to include several dozen participants that discuss a range of HAF and other servicing issues.

Read HPC's Joint Letter to FHA Commission Gordon

HPC in the News

- Ginnie Issuers Get One-Year Breather on RBC Standards, Inside Mortgage Finance, Monica Hogan, October 27, 2022

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. Please email newsletter@housingpolicycouncil.org to add a colleague's email to our list of newsletter subscribers.