FEDERAL HOUSING FINANCE AGENCY
Office of the Director

April 19, 2016

Bruce A. Harrell, Council President
Seattle City Council
P.O. Box 34025
Seattle, WA 98124-4025

Dear Council President Harrell:

Thank you for your February 16, 2016 letter about the sale of non-performing loans (NPLs) by Fannie Mae and Freddie Mac (the Enterprises).

The Federal Housing Finance Agency (FHFA) has been working with the Enterprises to address the number of deeply delinquent loans held in the Enterprises portfolios. Long-term delinquencies, almost all of which exceed one year in duration and some more than five years, are harmful for borrowers who face uncertainty or the inevitability of foreclosure. These long-term delinquencies also pose significant risk to the Enterprises and have persisted despite multiple attempts to reach these borrowers and offer them loss mitigation solutions. For a variety of reasons, outreach efforts are often unsuccessful.

FHFA views Enterprise NPL sales as a way to create a fresh start for borrowers while also mitigating both credit risk and asset liquidity risk for the Enterprises. We also believe that the Enterprises' NPL sales will help efforts to stabilize neighborhoods. Purchasers of these loans, both private investors and nonprofits, have a financial interest in working with all borrowers to get them to re-perform on their mortgage and avoid foreclosure. The new owners of the loans generally contract with specialty servicers that have extensive experience and track records in offering loss mitigation solutions to seriously delinquent borrowers. Given the impasse with their prior servicer, borrowers may be more likely to respond to outreach and loss mitigation solicitations by a new servicer.

In March 2015, FHFA put in place requirements for the Enterprises' NPL sales that imposed a number of affirmative obligations on the buyers. These requirements have been in place for approximately one year and, after reviewing the results and outcomes of these NPL sales and based on feedback from stakeholders, FHFA announced enhanced requirements that imposed additional obligations on NPL buyers on April 14, 2016. The enclosed fact sheet describes the combination of the old and new requirements.

Under the new requirements, new buyers and new servicers must offer a waterfall of loss mitigation options that start with loan modifications, including principal forgiveness and/or arrearages forgiveness for borrowers whose mark-to-market loan-to-value ratio is greater than 115 percent. In addition, the servicer may not "walk away" from any loan secured by a property that is vacant and abandon the lien on the property. Instead, servicers must attempt to resolve the delinquency through a foreclosure alternative or, if that is not successful, conduct a foreclosure, a loan donation, or a loan sale, as appropriate. Either of these options may result in a transfer to a non-profit or a government entity. Finally, the proprietary modification that a buyer offers must be at a fixed rate for the life of the loan or, if the borrower is given a modification with an interest-rate step-up, must comply with HAMP requirements: the initial period of reduced payments must last at least five years and the interest rate step-up after this period may not exceed one percentage point per year.

FHFA and both Enterprises recognize the value that non-profits can bring as NPL investors. New Jersey Community Capital has won each of the last three auctions of small, geographically concentrated pools (located in New Jersey and Florida) that both Enterprises have sold. The National Community Stabilization Trust (NCST) is another valuable non-profit partner in this area, and Fannie Mae is currently engaged in discussions to transfer a number of currently-vacant properties to NCST.

While both Enterprises continue to work to encourage participation by additional nonprofit organizations, it appears that the limited participation of nonprofits to date has resulted from a combination of lack of financial resources and lack of operational capacity by many non-profits to address delinquent loans on a scale beyond a small number of properties at one time. For this reason, we welcome the recent interest by state and local governments in helping to find solutions and look forward to working with them to address challenges in the current NPL sales process that may limit their participation. We believe it is in their interest to provide funding for their local non-profits, or to bid on these properties themselves, to take control of properties in their local communities.

FHFA staff is available to meet with representatives of the Seattle City Council, along with nonprofits and other community buyers, to discuss the Enterprises' NPL sales. However, we are not able to negotiate the sale of individual mortgages by Fannie Mae and Freddie Mac. If we can provide additional information, or if you wish to arrange a meeting with FHFA staff, please contact Megan Moore, Special Advisor, at 202-649-3018.

Sincerely,

Melvin L. Watt

Enclosure

cc: The Honorable Sally Bagshaw
The Honorable Tim Burgess
The Honorable M. Lorena González
The Honorable Lisa Herbold

The Honorable Rob Johnson
The Honorable Debora Juarez
The Honorable Mike O'Brien
The Honorable Kshama Sawant