



IOWA DEPARTMENT OF JUSTICE
OFFICE OF THE ATTORNEY GENERAL

April 23, 2020

Mark Calabria, Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

Re: Protecting Borrowers Affected By COVID-19

Dear Director Calabria,

During an economic crisis, State Attorneys General stand on the front lines. Many of us have heard directly from those who have lost their jobs and are fearful of their ability to provide for their families. As a result of the COVID-19 pandemic, millions of Americans are now facing unemployment and financial uncertainty through no fault of their own. Historic unemployment numbers have already been recorded, and there is no question that we are only at the beginning of the COVID-19 pandemic's economic impact. We applaud FHFA's initial action to halt foreclosures and evictions for 60 days for homeowners with GSE-backed mortgage loans and to ensure that borrowers affected by COVID-19 are eligible for forbearance. We also appreciate the additional forbearance and foreclosure relief provided by the CARES Act.¹

But more must be done for distressed homeowners in the wake of this pandemic. In particular, our national response must recognize the unique challenges presented by the unprecedented number of homeowners who are affected by COVID-19, including the fact that all of these homeowners need relief at the same time. Meeting this challenge will require straightforward and consistent guidance that can be quickly operationalized to meet the scale of the COVID-19 pandemic while providing immediate relief to homeowners.

We therefore urge FHFA to take the following responsive measures.

First, the Fannie Mae and Freddie Mac forbearance programs should be revised so that the forbore payments are placed at the end of the loan's term. Forbearance is the primary tool that has been used to offer borrowers temporary payment relief during times of disaster and temporary job loss, and both the FHFA's guidance and the CARES Act require forbearance plans for borrowers affected by COVID-19. While forbearance plans are a critical first response, we have significant concerns about the mortgage servicing industry's ability to implement the

¹ Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), Pub. Law No. 116-136.

forbearance plans as they are currently contemplated and about what will happen to homeowners after the forbearance period ends. Based on past experiences with both the last foreclosure crisis and recent natural disasters, we fear that both the mortgage servicing industry and homeowners will become overwhelmed if changes are not made.

Under the current forbearance programs, borrowers are required to become current at the end of the forbearance period.² In other words, while borrowers receive the benefit of payment relief for a period of time, borrowers are then expected to cure the delinquency by either repaying the forborne amount at the end of the forbearance period in a lump sum or by entering into a repayment plan or modification. Due to the economic uncertainty caused by COVID-19, there can be no reasonable expectation that a borrower who has experienced a loss of employment or a reduction in income will be able to repay the forborne payments in a lump sum at the end of the forbearance period. Early media stories already report significant borrower concern and confusion surrounding the lump sum repayment obligation, and we believe this concern and confusion will continue so long as this remains the first step in the post-forbearance process.

If a borrower is not able to become current, servicers are then required to evaluate the borrower for a series of loss mitigation options.³ In normal times, or even in times of a localized disaster, this is a reasonable and practicable approach. But these are not normal times, and this is not a localized disaster. COVID-19 is unique in both the sheer scale of the crisis and the fact that affected borrowers will all need help at the same time. Unlike the last foreclosure crisis, which gradually increased over time as it moved from subprime loans to the broader economy and a national recession, this time borrowers are becoming delinquent all at once. It has been estimated by some in the industry that anywhere from 25 to 35 percent of all borrowers may need some form of assistance. Servicers already appear to be overwhelmed by implementing these forbearance programs, even though they do not require documentation or individualized borrower evaluations, resulting in long wait times and borrower confusion. We have grave doubts about servicers' abilities to effectively manage the unprecedented number of borrowers who will be emerging from forbearance plans related to COVID-19 if servicers are required to perform individualized evaluations for all borrowers. Our offices' experience with the 2008 financial crisis has consistently shown that complex solutions are difficult for servicers to operationalize and often lead to new servicing issues that harm borrowers and the broader economy. Instead, we recommend that FHFA issue simple, self-executing guidance that servicers can easily implement to meet demand while providing an immediate, responsive resolution to borrowers.

Accordingly, we urge FHFA to revise the forbearance programs so that the obligation to repay forborne payments is automatically placed at the end of the loan in the form of additional monthly payments that will follow the current term of the loan.⁴ This would allow borrowers

² Fannie Mae Lender Letter, LL-2020-02; Freddie Mac Servicing Bulletin, 2020-4.

³ *Id.*

⁴ We acknowledge that Fannie Mae and Freddie Mac have recently announced a new Payment Deferral program that places forborne payments on the end of the loan. *See* Fannie Mae Lender Letter 2020-05; Freddie Mac Servicing Bulletin 2020-06. Servicers, however, are not required to implement the Payment Deferral program until January 2021. Moreover, the eligibility requirements for this program are so restrictive that many borrowers are unlikely to qualify. Borrowers are only eligible if they are no more than 60 days delinquent, have been in their loan for at least a

who are emerging from forbearance plans related to COVID-19 and who are able to resume their monthly payment to do so without the need for further loss mitigation. We also encourage FHFA to issue guidance allowing these post-forbearance agreements to occur without requiring borrowers to execute any additional documents, such as a loan modification agreement or a promissory note for the forbore payments, or at least waiving or easing those requirements until the pandemic abates. Finally, we encourage FHFA to clarify that a borrower may receive a forbearance based on the borrower's verbal attestation of a hardship related to COVID-19, and to encourage servicers to proactively notify borrowers of their right to verbally request a forbearance.

Second, FHFA should expand eligibility for its disaster-related modification programs.

There are three modification programs for borrowers affected by COVID-19: the Extend Modification, the Cap and Extend Modification for Disaster Relief, and the Flex Modification for borrowers affected by a disaster.⁵ Currently, a borrower is only eligible for any of the programs if the borrower was current or less than 31 days delinquent as of March 13, 2020, the date of the COVID-19 National Emergency Declaration.⁶ Further, a borrower is only eligible for the Cap and Extend Modification if the borrower is less than 360 days delinquent at the end of the forbearance plan.⁷ For a Flex Modification, the borrower must be at least 90 days delinquent upon completion of the forbearance plan.⁸

Considering the unprecedented character of the COVID-19 pandemic, the delinquency status requirements of these modification programs should be waived. Post-forbearance modification programs should be commensurate with the forbearance plans required by the CARES Act, and the CARES Act mandates forbearance to any borrower experiencing a COVID-19 hardship, regardless of whether the borrower is current or delinquent on the loan.⁹ Further, the CARES Act authorizes forbearances of up to 360 days,¹⁰ so many borrowers who received CARES Act forbearances will be more than 360 days delinquent by the end of the forbearance period. It makes no sense to allow these borrowers to receive forbearances for a particular period of time, but then allow that same period of time to cause them to be ineligible for a modification.

Therefore, FHFA should issue guidance waiving the requirement that a borrower must have been current or less than 31 days delinquent at the time of COVID-19 National Emergency Declaration to be eligible for disaster-related modification programs, and any borrower who

year, and have not received a modification in that time. These restrictive eligibility requirements, along with the delayed effective date mean that most borrowers who receive a forbearance are unlikely to receive a Payment Deferral. Accordingly, and to the extent that the Payment Deferral program is utilized, we recommend that FHFA eliminate the 60 day delinquency cap, along with the loan seasoning and prior modification criteria. The CARES Act allows forbearance of up to a year, and there are no seasoning or prior modification criteria to receive a CARES Act forbearance. Post-forbearance options should be commensurate to the applicability of the CARES Act forbearance program.

⁵ Fannie Mae Lender Letter, LL-2020-02; Freddie Mac Servicing Bulletin, 2020-4.

⁶ *Id.*

⁷ Fannie Mae Servicing Guide, Chapter D2-3.2-05; Freddie Mac Seller/Servicing Guide, Chapter 9206.4.

⁸ Fannie Mae Servicing Guide, Chapter D2-3.2-06; Freddie Mac Seller/Servicing Guide, Chapter 9206.5(e).

⁹ CARES Act, §4022(b)(1).

¹⁰ *Id.* at §4022(b)(2).

receives a CARES Act forbearance should be eligible for disaster-related modification programs regardless of the length of that forbearance plan.

Third, FHFA should confirm that the moratorium on foreclosures and evictions applies to all aspects of the foreclosure or eviction process. We appreciate the foreclosure and eviction moratorium of both the FHFA and the CARES Act. The CARES Act states that servicers of federally backed mortgages may not initiate any judicial or non-judicial foreclosure process, move for a foreclosure judgment or order of sale, or execute a foreclosure-related eviction or foreclosure sale until at least May 17, 2020.¹¹ To address differences in various states' foreclosure and eviction processes, we urge FHFA to instruct servicers that they also must suspend all foreclosures and evictions currently in process and cannot move forward or complete *any* step in the judicial or non-judicial foreclosure or eviction process while the moratorium is in place. This includes, for example, issuing pre-foreclosure notices, issuing acceleration notices, recording notices of default, recording notices of trustee sales, posting or publishing any notices, filing or proceeding with motions beyond continuances, or taking any other foreclosure or eviction action during the moratorium. Advancing any step of the eviction or foreclosure process during a forbearance related to COVID-19 will only lead to borrower confusion and harm.

Again, the State Attorneys General applaud FHFA's initial response to suspend foreclosures and apply forbearances to borrowers affected by the COVID-19 pandemic, and we appreciate the expanded protections provided by the CARES Act. Our national response, however, must continue to evolve to respond to the volume and impact of COVID-19. The proposals outlined in this letter are based on our offices' collective experience with past disasters, and our acknowledgment that COVID-19 will present unprecedented challenges to homeowners and the mortgage servicing industry. We urge FHFA to implement these recommendations to ensure that homeowners are given a fair opportunity to retain their home as we fight through this pandemic together.

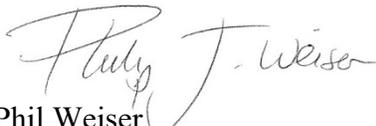
Sincerely,



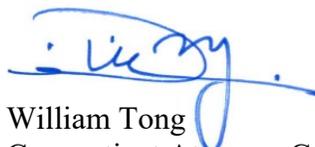
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Iowa Attorney General



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California Attorney General



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Colorado Attorney General



William Tong
Connecticut Attorney General



Kathleen Jennings
Delaware Attorney General



Karl A. Racine
District of Columbia Attorney General

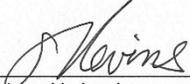
¹¹ *Id.* at §4022(c)(2).



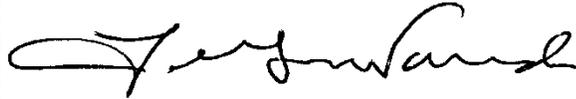
Ashley Moody
Florida Attorney General



Clare E. Connors
Hawaii Attorney General



Stephen H. Levins
Executive Director
State of Hawaii, Office of Consumer Protection



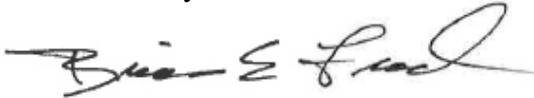
Lawrence Wasden
Idaho Attorney General



Kwame Raoul
Illinois Attorney General



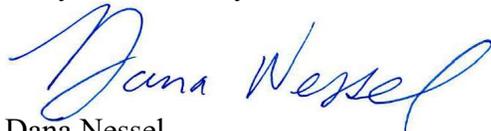
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Douglas Peterson
Nebraska Attorney General



Aaron D. Ford
Nevada Attorney General



Gurbir S. Grewal
New Jersey Attorney General



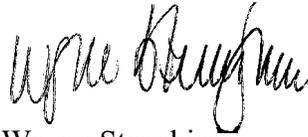
Hector Balderas
New Mexico Attorney General



Letitia James
New York Attorney General



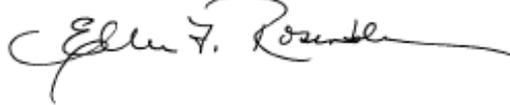
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North Carolina Attorney General



Wayne Stenehjem
North Dakota Attorney General



Dave Yost
Ohio Attorney General



Ellen F. Rosenblum
Oregon Attorney General



Josh Shapiro
Pennsylvania Attorney General



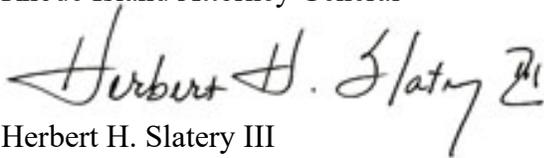
Dennise N. Longo Quiñones
Puerto Rico Attorney General



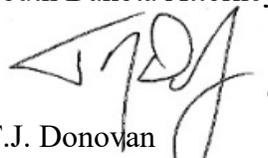
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Rhode Island Attorney General



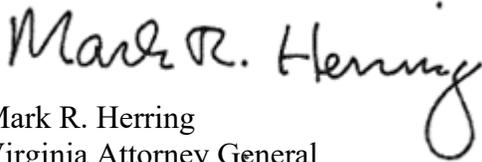
Jason R. Ravensborg
South Dakota Attorney General



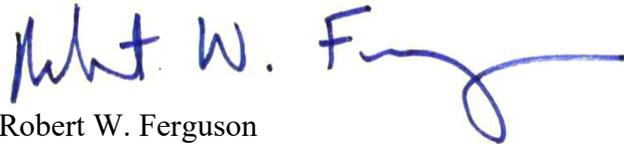
Herbert H. Slatery III
Tennessee Attorney General



T.J. Donovan
Vermont Attorney General



Mark R. Herring
Virginia Attorney General



Robert W. Ferguson
Washington Attorney General



Patrick Morrissey
West Virginia Attorney General



Joshua L. Kaul
Wisconsin Attorney General



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April 23, 2020

Dr. Ben Carson, Secretary
Department of Housing and Urban Development
451 7th St. SW
Washington, D.C. 20410

Re: Protecting Borrowers Affected By COVID-19

Dear Secretary Carson,

During an economic crisis, State Attorneys General stand on the front lines. Many of us have heard directly from those who have lost their jobs and are fearful of their ability to provide for their families. As a result of the COVID-19 pandemic, millions of Americans are now facing unemployment and financial uncertainty through no fault of their own. Historic unemployment numbers have already been recorded, and there is no question that we are only at the beginning of the COVID-19 pandemic's economic impact. We applaud HUD's initial action to halt foreclosures and evictions for 60 days for homeowners with FHA-insured loans and to ensure borrowers affected by COVID-19 are eligible for forbearance. We also appreciate the additional forbearance and foreclosure relief provided by the CARES Act.¹

But more must be done for distressed homeowners in the wake of this pandemic. In particular, our national response must recognize the unique challenges presented by the unprecedented number of homeowners who are affected by COVID-19, including the fact that all of these homeowners need relief at the same time. Meeting this challenge will require straightforward and consistent guidance that can be quickly operationalized to meet the scale of the COVID-19 pandemic while providing immediate relief to homeowners.

We therefore urge HUD to take the following responsive measures.

First, HUD should revise its forbearance programs so that the forbore payments are placed at the end of the loan's term. Forbearance is the primary tool that has been used to offer borrowers temporary payment relief during times of disaster and temporary job loss, and the CARES Act and HUD's new guidance in Mortgagee Letter 2020-06 requires forbearance plans for borrowers affected by COVID-19. While forbearance plans are a critical first response, we have significant concerns about the mortgage servicing industry's ability to implement the

¹ Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), Pub. Law No. 116-136.

forbearance plans as they are currently contemplated and about what will happen to homeowners after the forbearance period ends. Based on past experiences with both the last foreclosure crisis and recent natural disasters, we fear that both the mortgage servicing industry and homeowners will become overwhelmed if changes are not made.

Under HUD's new guidance, at the end of the forbearance servicers are required to evaluate borrowers for a COVID-19 National Emergency Standalone Partial Claim to cure the delinquency caused by the forbearance. If the borrower is not eligible for this new COVID-19 partial claim program, servicers are required to evaluate borrowers for home retention options, like FHA-HAMP, and non-home retention options. For the reasons discussed below, we are concerned that the eligibility requirements of these loan modification programs are not commensurate with the scope of the forbearance programs required by the CARES Act, and as a result many borrowers who receive a forbearance will then face the loss of their home when the forbearance period ends.

We are also concerned about requiring an individualized evaluation for every borrower who receives a CARES Act forbearance. In normal times, or even in times of a localized disaster, requiring an individualized loss mitigation evaluation to cure the forbearance delinquency is a reasonable and practicable approach. But these are not normal times, and this is not a localized disaster. COVID-19 is unique in both the sheer scale of the crisis and the fact that affected borrowers will all need help at the same time. Unlike the last foreclosure crisis, which gradually increased over time as it moved from subprime loans to the broader economy and a national recession, this time borrowers are becoming delinquent all at once. Some estimate that anywhere from 25 to 35 percent of all borrowers may need some form of assistance. Servicers already appear to be overwhelmed by implementing these forbearance programs, even though they do not require documentation or individualized borrower evaluations, resulting in long wait times and borrower confusion. We have grave doubts about servicers' abilities to effectively manage the unprecedented number of borrowers who will be emerging from forbearance plans related to COVID-19 if servicers are required to perform individualized evaluations for all borrowers. Our experience with the 2008 financial crisis has consistently shown that complex solutions are difficult for servicers to operationalize and often lead to new servicing issues that harm borrowers and the broader economy. Instead, we recommend that HUD issue simple, self-executing guidance that servicers can easily implement to meet demand while providing an immediate, responsive resolution to borrowers.

Accordingly, we urge HUD to revise its COVID-19 guidance so that the obligation to repay forborne payments is automatically placed at the end of the loan in the form of additional monthly payments that will follow the current term of the loan. This would allow borrowers who are emerging from forbearance plans related to COVID-19 and who are able to resume their monthly payment to do so without the need for further loss mitigation. Additionally, this also will reduce the burden on servicers as they will not need to process as many loss mitigation requests for borrowers when the forbearance periods expire. We also encourage HUD to issue guidance allowing these post-forbearance agreements to occur without requiring borrowers to execute any additional documents, such as a loan modification agreement or a promissory note

for the forbore payments, or at least waiving or easing those requirements until the pandemic abates.

Second, HUD should expand eligibility for loss mitigation programs for borrowers emerging from forbearance plans related to COVID-19. In HUD's Mortgagee Letter 2020-06, HUD announced a new COVID-19 National Emergency Standalone Partial Claim program. We appreciate HUD's desire to design a program specifically for those affected by the pandemic. However, we urge HUD to reconsider its decision to remove the Disaster Loan Modification option for borrowers affected by COVID-19. Further, HUD should revise the eligibility criteria of its modification options to ensure that these programs have the same reach as the forbearance program mandated by the CARES Act.

First, while announcing a new partial claim program, HUD simultaneously announced that borrowers suffering from a hardship related to COVID-19 were not eligible for HUD's Disaster Loan Modification program (which allows for term extension, as opposed to a partial claim). Considering the unprecedented harm that COVID-19 has caused to borrowers, HUD should not remove potential loan modification options for borrowers emerging from forbearances related to COVID-19.

Further, HUD's new COVID-19 National Emergency Standalone Partial Claim program limits eligibility to borrowers who were current or less than 30 days delinquent as of March 1, 2020.² Moreover, the partial claim amount cannot exceed 30 percent of the unpaid principal balance.³ If a borrower is not eligible for the COVID-19 National Emergency Standalone Partial Claim, then the borrower will be reviewed for HUD's FHA-HAMP program. The FHA-HAMP program has additional eligibility limits, such as requiring the borrower to have made at least 4 payments and the loan to have aged at least 12 months, in addition to the same partial claim cap.⁴

Considering the unprecedented character of the COVID-19 pandemic, the delinquency status requirements of HUD's disaster-related modification programs should be waived. Post-forbearance modification programs should be commensurate with the forbearance plans required by the CARES Act, and the CARES Act mandates forbearance to any borrower experiencing a COVID-19 hardship regardless of whether the borrower is current or delinquent on the loan.⁵ Further, the CARES Act authorizes forbearances of up to 360 days,⁶ so borrowers may very well exceed the maximum partial claim amount under the new COVID-19 National Emergency Standalone Partial Claim and the pre-existing FHA-HAMP program through no fault of their own. It makes no sense to allow these borrowers to receive forbearances for a particular period

² HUD Mortgagee Letter, 2020-06. Likewise, eligibility for HUD's disaster-related modifications (FHA Single Family Policy Handbook 4000.1, §III.A.3.ci.iv) is similarly limited to borrowers who were current or less than 30 days delinquent from the disaster proclamation. As stated above, we urge HUD to make the term extension program available to COVID-affected borrowers, and to remove the delinquency status criteria, along with the maximum arrearage amount, of that program for these borrowers to ensure that the program has the same scope of the forbearances mandated by the CARES Act.

³ *Id.*

⁴ FHA Single Family Policy Handbook 4000.1, §III.A.2.k.v.

⁵ CARES Act, §4022(b)(1).

⁶ *Id.* at §4022(b)(2).

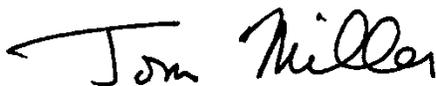
of time, but then allow that same period of time to potentially cause them to be ineligible for a modification. Similarly, the seasoning requirements of the FHA-HAMP program do not serve their original purpose in the context of the current pandemic, and they should be waived.

Therefore, HUD should issue guidance that borrowers experiencing a COVID-19 hardship are eligible for the Disaster Loan Modification program, and HUD should waive the delinquency and maximum arrearage limit of this program. For the COVID-19 National Emergency Standalone Partial Claim program, HUD should eliminate the requirement that a borrower must have been current or less than 30 days delinquent as of March 1, 2020, and HUD should also direct that any forbore payments should not count towards the maximum partial claim amount under the COVID-19 National Emergency Standalone Partial Claim or FHA-HAMP loan modification programs. Similarly, the seasoning requirements of the FHA-HAMP program should not be applied to borrowers who are affected by COVID-19.

Third, HUD should clarify that the moratorium on foreclosures and evictions applies to all aspects of the foreclosure or eviction process. We appreciate the foreclosure and eviction moratorium of both HUD and the CARES Act. The CARES Act states that servicers of federally backed mortgages may not initiate any judicial or non-judicial foreclosure process, move for a foreclosure judgment or order of sale, or execute a foreclosure-related eviction or foreclosure sale until at least May 17, 2020.⁷ To address differences in the various states' foreclosure and eviction processes, we urge HUD to instruct servicers that they also must suspend all foreclosures and evictions currently in process and cannot move forward or complete *any* step in the judicial or non-judicial foreclosure or eviction process while the moratorium is in place. This includes, for example, issuing pre-foreclosure notices, issuing acceleration notices, recording notices of default, recording notices of trustee sales, posting or publishing any notices, filing or proceeding with motions beyond continuances, or taking any other foreclosure or eviction action during the moratorium. Advancing any step of the eviction or foreclosure process during a forbearance related to COVID-19 will only lead to borrower confusion and harm.

Again, the State Attorneys General applaud HUD's initial response to suspend foreclosures and provide forbearance to affected borrowers, and we appreciate the expanded protections provided by the CARES Act. Our national response, however, must continue to evolve to meet the volume and impact of COVID-19. The proposals outlined in this letter are based on our collective experience with past disasters and financial crises, and our acknowledgment that COVID-19 will present unprecedented challenges to homeowners and the mortgage servicing industry. We urge HUD to implement these recommendations to ensure that homeowners are given a fair opportunity to retain their home as we fight through this pandemic together.

Sincerely,



Tom Miller
Iowa Attorney General



Xavier Becerra
California Attorney General

⁷ *Id.* at §4022(c)(2).



Phil Weiser
Colorado Attorney General



Kathleen Jennings
Delaware Attorney General



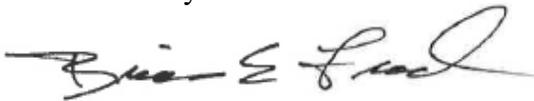
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State of Hawaii, Office of Consumer Protection



Kwame Raoul
Illinois Attorney General



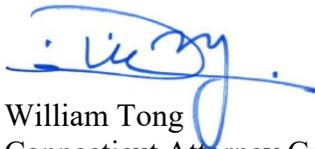
Brian Frosh
Maryland Attorney General



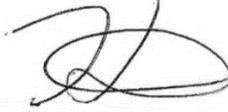
Dana Nessel
Michigan Attorney General



Tim Fox
Montana Attorney General



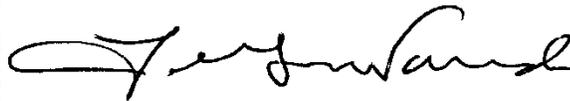
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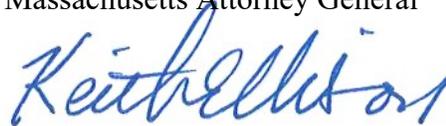
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Idaho Attorney General



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Maine Attorney General



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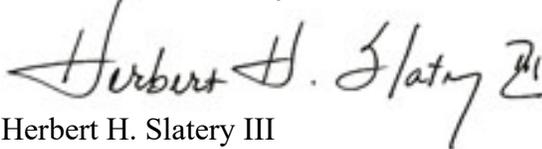
Dave Yost
Ohio Attorney General



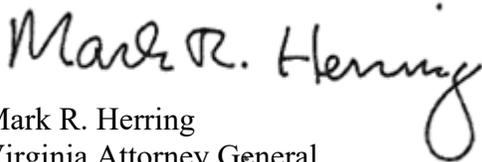
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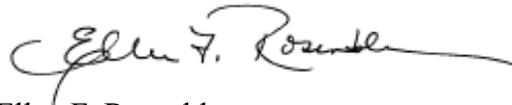
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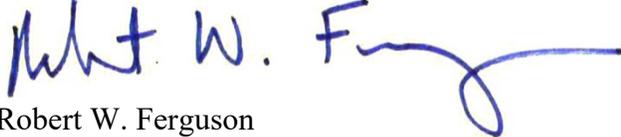
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