



April 8, 2020

The Honorable Elizabeth Warren
United States Senate
309 Hart Senate Building Office
Washington, DC 20510

Dear Senator Warren,

On behalf of the Massachusetts Mortgage Bankers Association (MMBA) and our members who provide mortgage financing to consumers, we would like to thank you for your leadership, especially now during the COVID-19 pandemic. We want you to be aware of three important issues impacting consumers seeking mortgages refinances or forbearances.

Specifically, we are asking for your intervention with FHFA Director Mark Calabria and asking Fannie Mae and Freddie Mac to make the following changes:

- **Expand the use of a desktop appraisal or an exterior-only appraisal for all refinances and/or allow appraisers to use technology for obtaining interior inspections in alternative ways.**
- **Honor purchase commitment for mortgages for consumers experiencing COVID-19 financial distress after loan closing who have applied for a forbearance.**
- **Support the Federal Reserve using its authority under Section 13(3) of the Federal Reserve Act to provide liquidity for the residential and commercial mortgage servicing sector.**

Background:

We are encouraging borrowers to comply with the Stay at Home and Social Distancing guidelines during the COVID-19 pandemic. We are under a state of emergency and non-essential activities are discouraged -from our work life to our children's school life, – we need to obey common sense distancing wherever possible for as long as this threat continues. This applies to consumers consummating a mortgage transaction as well as industry professionals such as an attorney, appraiser, or an employee at a registry.

Please consider this timeline for some perspective. Mortgage volume, especially refinance applications, have been at historic highs since early 2020. In the beginning of March mortgage applications reached an [11-year high](#) driven by record lows in interest rates. By March 10th, Governor Baker declared a state of emergency in Massachusetts. On March 11th, the COVID-19 outbreak was categorized as a pandemic by the World Health Organization. By March 18th schools were closed in Massachusetts. The COVID-19 pandemic on top of historically high loan volume was creating a tsunami of a disaster

As COVID-19 exerts a significant hardship on consumers, Federal and state governments have announced plans to help struggling homeowners during this time. The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, puts two protections in place for homeowners; a foreclosure moratorium and a right

to forbearance for homeowners experiencing a financial hardship due the COVID-19 emergency. The Massachusetts Division of Banks issued guidance for financial institutions providing relief and there is also pending legislation as well.

Appraisal Issue:

On March 23, 2020 the Federal Housing Finance Agency (FHFA) announced in a [press release](#) “temporary flexibility” in appraisal requirements. What lenders and appraisers were hoping for – loosening the requirement that appraisers did not have to enter homes to complete an appraisal assignment didn’t come to most of the loans in the pipeline. Instead here is what the actual guidelines from [Fannie Mae](#) and [Freddie Mac](#) contained:

- If a transaction was for a purchase, either a primary residence or a second home with 15% or more down payment, a desktop or exterior-only appraisal could be used.
- If the transaction was a Freddie Mac to Freddie Mac transaction or a Fannie Mae to Fannie Mae transaction with no cash out -an exterior-only appraisal could be used.

Other than those specific examples listed above – traditional appraisals requiring interior inspections by an appraiser would be needed. Our lenders estimated that an average of 80% of their pipelines required full appraisals.

What were we expecting? Our hope was that appraisers and homeowners would not be forced to have in-person contact in order to refinance their homes for a lower rate, lower terms or whatever the reason was to refinance their home. As an example, a member called me today extremely distressed. Their borrowers were applying for a cash out refinance to pay medical bills and expenses. One of the borrowers has stage-IV cancer and cannot risk being exposed to outside contaminants. Their only options are to cancel the refinance or put a life at risk in order to have an appraiser enter every room in their home.

- FHFA, Fannie Mae and Freddie Mac have the opportunity and the moral obligation to allow appraisers and lenders flexibility. There is state of the art technology available to appraisers that allow for obtaining interior inspections in alternative ways, but the GSE’s will not allow or consider these options. As an example, a technology called Verisite allows a homeowner to take and upload photos as required by the lender. Verisite geocodes each photo with the specific location where it was taken to ensure that the photos are of the subject property.
- FHFA, Fannie Mae and Freddie Mac also could have decided to expand the use of a desktop appraisal or an exterior-only appraisal for all refinances. Clearly, these two alternatives allow the appraiser to remain safely distanced from others while delivering an appraisal report satisfactory to the agencies.

FHA is allowing exterior-only appraisals for no cash-out refinances without regard for who holds the loan being refinanced. If FHA is agreeing to insure new refinance mortgages, paying off any lender’s or investor’s mortgage, without an interior property inspection, why shouldn’t the GSE’s follow?

Failure to Purchase Closed Loans:

Investors and the GSE’s have an obligation to both consumers and lenders to purchase the loans that meet secondary market guidelines that have been rate locked and committed to purchase. Lenders verify that borrowers still have income and can still pay a mortgage -verifying this sometimes up until the morning of

the loan closing. Somewhere along the post-closing process, even after the loan has been sold, if a borrower has a change of circumstances due to COVID-19, Fannie Mae and Freddie Mac will refuse to purchase a loan if a borrower has applied for a forbearance.

This is an unprecedented time in the history of the United States and the globe. The CARES Act, FHFA, HUD, the Massachusetts Division of Banks and pending state legislation all announced and put into place some type of relief for consumers that have experienced financial distress due to COVID-19. A flaw that complicates the mortgage forbearance process is that the CARES Act doesn't require proof of COVID-19 financial hardship so any homeowner can apply for a forbearance. Municipalities in Massachusetts are passing resolutions placing moratoriums on foreclosures, mortgage payments, rent payments and evictions for those impacted by COVID-19. The only agencies not doing their part are the GSE's. **Lenders who originate these mortgages need Fannie Mae, Freddie Mac and the FHFA also need to stand by their commitment and purchase loans for consumers.**

Additional Liquidity Needed:

There is a broad based coalition of organizations representing housing and financial services (including several affordable housing advocates) who released [a statement](#) calling on Treasury, FHFA and the Fed to work **now** to stand up a liquidity facility to help mortgage servicers provide the widespread forbearance called for by the GSEs, FHA, and under the CARES Act.

One consequence of widespread borrower forbearance on a national scale to help both homeowners and renters is a severe liquidity shortage that will befall the housing finance system. This liquidity shortage will most acutely affect mortgage servicers, who are contractually bound to continue to advance monthly payments to investors, insurers, and taxing authorities, regardless of whether the borrower actually made those payments and those who hold mortgage servicing rights as collateral to enable mortgage lending. Many servicers, regardless of its business model or size, will be able to make sustained advances on behalf of homeowners and renters for the COVID-19 emergency when such a significant portion of borrowers nationwide could cease making their payments under the mortgage forbearance recently authorized by the CARES Act. **We therefore urge you support the Federal Reserve using its authority under Section 13(3) of the Federal Reserve Act to provide liquidity for the residential and commercial mortgage servicing sector.**

Why is this happening? There are many in the industry based upon several indicators that feel the FHFA, Fannie Mae, and Freddie Mac do not want to expand their "book of business" during the COVID-19 crisis. In January the GSE's had no problem with this expansion. Now when consumers and lenders need them most, they are failing.

The MMBA is an association that advocates for the welfare of our members, our third-party partners such as appraisers, attorneys and consumers. Protecting consumers from needless risk of exposure to COVID-19 as well as honor their loan commitments is our greatest priority. A priority we wish the agencies shared. We must put pressure on the agencies to make the right decisions when it comes to respecting the guidelines for controlling the spread of the virus and that includes changing their insistence that appraisers must enter homes for most refinance assignments. We must also put pressure on the agencies to make the right decisions when it comes to honoring their commitment and mission to provide liquidity and stability to the housing market.

According to Fannie Mae's website: "Our mission to provide liquidity, stability, and affordability to the U.S. housing market has never been more critical than it is right now."

According to Freddie Mac's website: "Our **mission** to provide liquidity, stability, and affordability to the U.S. housing market **in all economic conditions** extends to all communities from coast to coast."

The mission of Fannie Mae and Freddie Mac should be more than just words on their website. They need to take responsibility and help consumers, mortgage lenders and servicers NOW.

We are hopeful that your intervention with FHFA and the agencies will make a difference and we are available to answer questions or provide more information.

Sincerely,

A handwritten signature in black ink that reads "Deborah J. Sousa". The signature is written in a cursive, flowing style.

Deborah J. Sousa, Executive Director
Massachusetts Mortgage Bankers Association