Credit Union National Association
CUNA

Jim Nussle
President & CEO

Phone: 202-508-6745
jnussle@cuna.coop

99 M Street SE
Suite 300
Washington, DC 20003-3799

April 14, 2020

The Honorable Mark A. Calabria
Director
Federal Housing Finance Agency
400 7th St., S.W.
Washington, D.C. 20024

Dear Director Calabria:

On behalf of the Credit Union National Association (CUNA), I am writing to express appreciation for the work of the Federal Housing Finance Agency (FHFA) over the past month to provide flexibility and clarity for mortgage servicers of government-backed loans to work with borrowers during the COVID-19 pandemic. CUNA represents America's credit unions and their 115 million members.

As expected, the widespread adoption of "stay-at-home" policies has resulted in economic disruption across the country. Small businesses have seen revenue streams come to a halt and the number of unemployed or financially distressed consumers has increased to historic levels. In response, Congress took action to provide relief to borrowers of government-backed loans and the FHFA has also taken steps to provide relief to those same borrowers. We appreciate those substantial efforts and encourage the FHFA to ensure there is consistency between the policies within their regulatory purview and the directives of Congress.

As financial first responders, credit unions remain open and ready to assist members in need – of which there are many. In many cases, credit unions and service providers are operating under amended hours, reduced staffing, and mandatory telework policies, and are even alternating in-person work schedules to correspond with appropriate social distancing. At full capacity, about one-third of credit unions operate with five or fewer full-time equivalent (FTE) employees, and about half of credit unions operate with 10 or fewer FTEs. The current conditions have strained credit unions' finite resources and significantly changed many standard operating procedures and processes.

In recent weeks, CUNA has conducted outreach with credit unions and other stakeholders in the credit union ecosystem. These engagements have helped us identify additional policy recommendations, listed below, that would help credit unions assist members affected by the current COVID-19 crisis.

<u>Liquidity Facility</u>
While we support Congress and FHFA's initiatives to aid distressed mortgage borrowers, CUNA is increasingly concerned about the impact a large volume of mortgage forbearances will have on the liquidity of mortgage servicers. The longer that mortgage servicers, especially non-bank servicing companies like credit union service organizations (CUSOs), are expected to deliver scheduled payments while the borrowers themselves are in deferment, the greater the likelihood that servicers will start to experience liquidity issues. We recommend policymakers act to provide a funding source accessible to mortgage servicers as the financial disruption becomes prolonged. To this end, we believe FHFA should support and work with Congress to create a financing program,

or liquidity facility, for mortgage servicers in need of assistance in order to preserve servicers' ability to respond to the unprecedented levels of payment forbearance required to help families affected by COVID-19.

Closings for Temporarily Laid-Off Consumers

Credit unions have reported that the Government-Sponsored Enterprises (GSEs) are not currently conducting closings for consumers laid-off because of COVID-19 due to income verification purposes on loan applications or refinancing. This trend contradicts the spirit of offering relief to borrowers as, in many cases, these members are likely going through the application process to obtain financial relief in the form of lower payments. While we understand there are circumstances that warrant this action, our concern is for those consumers who have a specified recall date or are on short-term/voluntary layoff with the intent to, or date of, return to work. Credit unions recommend additional clarity on how the GSEs plan to address these temporary income disruptions and the impact on the ability to conduct closings.

An emerging concern for lenders presents itself when a loan is closed and within days or weeks, the borrower requests a forbearance due to job loss or furlough. If this occurs, the loan is not saleable to Fannie Mae or Freddie Mac. Most lenders do not sell the loan on the day of the closing. While some credit union lenders sell quickly, others may take longer to sell for various operational reasons. This is a new challenge for lenders that should be quickly addressed by FHFA.

Loan Modifications for Permanently Affected Consumers

Borrowers that have recently experienced a permanent job loss also have loan modification challenges.

For borrowers that lose their jobs temporarily, lenders can offer up to 6 months of forbearance, maintain monthly contact with the borrower during those months, and, at the conclusion of the forbearance, take the loan amount that was forborne and roll it into a new loan with a zero percent interest rate that is paid off at maturity or loan payoff. This means the borrower does not have to catch up on the payments that were deferred. In short, the borrower would receive a "time out" during this unprecedented time while the lender can maintain the loan.

However, for borrowers that lose their jobs completely and will not go back to the same job, the lender must offer a modification option for which the borrower then must qualify. The borrower must complete the modification application - similar to a new loan application - and the lender must underwrite the modification request. If approved, the lender can offer the borrower a "trial" modification. The trial typically lasts three months to ensure the member can make the new payment, and at the conclusion, it will become a permanent modification.

The problem with this process is that the borrower is unlikely to qualify for the trial due to job loss, rendering the process moot before it has begun. It also creates added work for servicers at a time when resources are stretched thin as it is. More significantly, if the borrower does not qualify for the "trial" modification, which is likely given the current process, lenders lack clarity on how to proceed given the foreclosure moratorium.

Despite best intentions, this process has become a Catch-22 that doesn't help those in need. We recommend that FHFA allow for trial modifications for borrowers that have lost their jobs and do not expect to get them back. Lenders and borrowers should have a streamlined process in these instances, allowing borrowers the time and opportunity to gain employment once the crisis ends while protecting the lenders' investments.

Guidance

Credit unions have encountered an unprecedented number of distressed borrowers seeking assistance requests and flooding call centers. As forbearance requests increase, so too do the questions surrounding the process and procedures. We recommend FHFA and GSEs issue guidance and additional resources addressing the following topics:

- The treatment of escrow, private mortgage insurance (PMI), credit life, credit disability, and interest during the period of loan deferment and after the deferment concludes. In particular, FHFA and the GSEs could provide clarity on the timing of an escrow analysis and the options for repayment of unpaid escrow.

- Providing periodic statements to borrowers who are deferring loan payments in a manner that avoids borrower confusion. Currently, statements will show "next payment due" and could result in unnecessary questions to credit union contact centers from consumers who think they are approved to not make a payment, but the periodic statement says otherwise.

- The challenges in obtaining income and/or employment documentation for borrowers during the pandemic due to the high numbers of closed and/or understaffed businesses, particularly when these closings are temporary and not long term.

Uniform Residential Loan Application

We urge FHFA to delay implementation of the new Uniform Residential Loan Application (URLA). According to the GSEs, lenders are required to begin using the new URLA by November 1, 2020. Due to the high volume of new originations and limited staff resources, technical form changes should not be a top priority for lenders at this time. FHFA should not impose arbitrary deadlines until, at minimum, 90 days after the national emergency declaration is lifted.

As member-owned, not-for-profit financial cooperatives, credit unions exist to provide credit and low-cost services to our member-owners, especially during times of emergency. While the COVID-19 pandemic has dramatically changed almost every aspect of everyday life, credit unions are standing true to their mission and continuing to assist their members and communities. Any liquidity assistance, clear guidance, and regulatory relief the FHFA can provide will greatly help credit unions in their efforts to assist mortgage borrowers in need.

On behalf of America's credit unions and their 115 million members, thank you once again for considering our recommendations.

Sincerely,

Jim Nussle
President & CEO