

May 31, 2022

Julia Gordon  
Assistant Secretary for Housing, Federal Housing Commissioner  
Department of Housing and Urban Development  
451 7th St S.W.  
Washington, D.C. 20410

Dear Commissioner Gordon:

Re: Needed loan modification enhancements to address rising interest rates

On behalf of the clients, communities, and neighborhoods we represent, we urge HUD to adopt enhancements to the FHA COVID-19 waterfall to address the impact of rising interest rates. The rate HUD uses to determine the interest rate for modified loans has increased by almost 2.5% over the last year. The higher interest rate directly limits the amount of relief borrowers can obtain through FHA's waterfall, especially for those borrowers who currently have low rates.

HUD should adopt the following enhancements in order for the agency to achieve its goal of enabling struggling borrowers to keep their homes by providing significant payment relief for borrowers who need it.

First, HUD should allow for **waiver or reduction of the borrower's annual mortgage insurance premiums (MIP)** to the extent required to help them reach the target payment. Borrowers pay the MIP to HUD each month as part of their payment, and therefore, reducing or waiving the MIP would provide instant payment relief. According to our calculations, for most FHA loans in forbearance or serious delinquency, waiving MIP would equate to an additional 10 to 16 percentage points of payment reduction. Selectively reducing MIP for borrowers facing the greatest financial hardship to create an affordable modification will reduce foreclosures and the associated Mutual Mortgage Insurance Fund (MMIF) claims, help families retain the generational wealth-building opportunity of homeownership, and help avoid expanding the racial homeownership gap even further.

Second, **HUD should allow borrowers to access their statutory maximum partial claims** when needed to achieve HUD's payment target. Currently, HUD does not allow borrowers to use their full partial claim to address COVID-19 hardship. The additional partial claim capacity could be used to defer principal and would generate an additional 4 to 6 percentage points of payment reduction. Given the recent increase in mortgage rates, borrowers facing ongoing pandemic-related hardship may need the added payment reduction to create an affordable modification.

Finally, **HUD should set the maximum interest rate for new forty-year modification terms at 25 basis points above Freddie Mac's Primary Mortgage Market Survey (PMMS)** and not the current 50 basis points set out in Mortgagee Letter 2022-07. Adding 50 basis points onto an already high PMMS rate limits the payment relief HUD can offer. The reduction of 25 basis points properly balances the needs of the marketplace with the need to reduce borrower rates. By

our estimates, such a reduction would provide an additional 2 to 3 percentage points of payment relief to borrowers.

We appreciate HUD's efforts to help borrowers avoid foreclosure. We believe these enhancements will further HUD's goals and provide borrowers with relief despite rising interest rates.

Sincerely,

Americans for Financial Reform Education Fund  
Center for Community Progress  
Center for NYC Neighborhoods, Inc. (NY)  
Center for Responsible Lending  
Community Legal Services of Philadelphia (PA)  
Connecticut Fair Housing Center  
Consumer Action  
Housing and Economic Rights Advocates (CA)  
Jacksonville Area Legal Aid, Inc. (FL)  
Legal Aid Society of Southwest Ohio, LLC  
Long Island Housing Services, Inc. (NY)  
Mobilization for Justice, Inc. (NY)  
Mountain State Justice, Inc. (WV)  
National CAPACD- National Coalition for Asian Pacific American Community Development  
National Community Stabilization Trust  
National Consumer Law Center (on behalf of its low-income clients)  
National Fair Housing Alliance  
National Housing Law Project  
National Housing Resource Center  
NHS Brooklyn, CDC, Inc. (NY)  
North Carolina Justice Center  
Northwest Side Housing Center (IL)  
Public Counsel (CA)