POLITICO

Housing regulator bows to pressure to aid struggling mortgage companies

Katy O'Donnell and Victoria Guida

April 21, 2020

A top government regulator on Tuesday offered cash-strapped mortgage companies a break after facing sustained pressure from the industry to relent on his refusal to step in and prevent a potential housing crisis.

The massive coronavirus rescue package passed by Congress last month gave struggling homeowners the option to request up to a year's suspension of their mortgage payments but did not include relief for mortgage servicers, which process millions of those payments every month.

That threatened to create a massive cash crunch for the servicers because they are legally required to advance funds to investors in mortgage-backed securities even when a borrower doesn't make payments.

Now, Federal Housing Finance Agency Director Mark Calabria, a former chief economist to Vice President Mike Pence, says the servicers will only have to advance four months of missed payments on single-family loans to Fannie Mae and Freddie Mac, the companies that stand behind about half the country's mortgages. The FHFA, which regulates the two government-sponsored mortgage giants, said Fannie and Freddie will not require advances after four months.

Calabria, a onetime economist at the libertarian Cato Institute, had previously rebuffed requests to give servicers a break, dismissing forecasts of widespread delays in mortgage payments as industry "spin." He rejected the idea of setting up an emergency program to help servicers, which are often lightly capitalized, prompting heavy criticism from mortgage bankers and housing advocates alike.

"The four-month servicer advance obligation limit for loans in forbearance provides stability and clarity to the $5 trillion Enterprise-backed housing finance market," Calabria said today. "Mortgage servicers can now plan for exactly how long they will need to advance principal and interest payments on loans for which borrowers have not made their monthly payment."

One industry projection estimates that the companies would be on the hook for $100 billion in payments — a scenario that would wipe out many of the companies and destabilize the housing finance system.

Concerns about liquidity in the mortgage finance system have been building for years. The companies that service mortgage loans are increasingly not banks, so they don't have banks' access to Federal Reserve loans or strict capital requirements and deposits to fall back on.

The industry has also been pushing for the central bank to set up an emergency program to help servicers weather the coronavirus pandemic.

Federal Reserve Chair Jerome Powell earlier this month said the central bank was "watching carefully" to see how developments in the mortgage market were unfolding.

"We certainly have our eyes on that as a key market that does support households and consumer spending, really, which is of course 70 percent of the economy," he said.