

FHA Note Sales Should Cease until Homeowners are Fully Protected

National Consumer Law Center Advocates Say Homeowners Need More Protections

(WASHINGTON) Yesterday, the U.S. Department of Housing and Urban Development (HUD) announced changes to the Distressed Asset Stability Program (DASP), which sells defaulted Federal Housing Administration (FHA) mortgage loans to for-profit buyers at a discount.

When loans are sold in the DASP program, the homeowners lose important government protections that help ward off foreclosure. HUD's announcement seeks to fill this gap with a requirement for servicers to consider reducing loan principal to make loans more affordable. "We agree that principal reductions are sorely needed, but HUD's approach is to leave the decision solely to the discretion of the loan buyers," said Geoff Walsh, attorney at the National Consumer Law Center (NCLC). "Note sales should include publicly available, enforceable standards to regulate what these buyers must do. Homeowners who are not offered principal reduction should be notified they were found ineligible and should be provided with supporting documentation."

Yesterday's announcement failed to address a key problem for FHA homeowners—that their loans are often sold while they are in the process of applying for a home-saving FHA solution. HUD still has declined to require servicers to notify homeowners when their loans are going to be sold. If homeowners received a timely notice of sale and if their servicer did not offer them foreclosure prevention options, they could contact the servicer or HUD. This could prevent unnecessary foreclosures and note sales. "HUD's June 30 announcement recognizes this problem, but its solution is a vague, generic notice of a potential sale to all FHA homeowners in default regardless of whether their loan is chosen years later for a sale," said Walsh. "HUD can and should require clear and timely notices of proposed sales to homeowners whose loans have been selected for sale, along with information on the status of the homeowner's loss mitigation application."

To date, HUD has sold over 110,000 FHA-insured home loans valued at \$18 billion, primarily to private equity companies and hedge funds that bought the loans at big discounts. Yet it has not released concrete data showing the structure of the modifications and other foreclosure alternatives these loan buyers are offering. "Yesterday's announcement does not indicate that HUD plans to release this important data in the future. We call on HUD to tell the public and homeowners exactly what data it will collect and release," said National Consumer Law Center attorney Alys Cohen.

"Servicers routinely send loans to DASP sales without completing loss mitigation reviews required by FHA rules. Even with yesterday's announcement, it appears that HUD will continue to allow servicers to sell FHA loans without effective oversight. The buyers of these loans will continue to foreclose on struggling homeowners without offering them proven home saving solutions. These sales should not continue unless homeowners are fully protected," Walsh added.

Walsh is the author of a recent NCLC report, *Opportunity Denied: How HUD's Note Sale Program Deprives Homeowners of the Basic Benefits of Their Government-Insured Loans*.

###

Since 1969, the nonprofit **National Consumer Law Center®** (NCLC®) has used its expertise in

consumer law and energy policy to work for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the United States. NCLC's expertise includes policy analysis and advocacy; consumer law and energy publications; litigation; expert witness services, and training and advice for advocates. NCLC works with nonprofit and legal services organizations, private attorneys, policymakers, and federal and state government and courts across the nation to stop exploitative practices, help financially stressed families build and retain wealth, and advance economic fairness. www.nclc.org