Government Report Shows Harm to Consumers from HUD Loan Auctions to Private Equity Firms

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Boston – A report released to the public today by the U.S. Government Accountability Office (GAO) analyzes the U.S. Department of Housing and Urban Development’s (HUD) Loan Sale Program and shows the harm the program has caused to FHA-insured homeowners. According to the GAO, the mortgage loans that were sold through this program, primarily to private equity companies, have fared worse and have been more likely to result in foreclosure than unsold loans.

Through its Loan Sale Program, HUD has facilitated the auction of around 110,000 loans valued at over $19 billion. The program involves the bulk sale of large pools of FHA-insured loans, which are intended to provide a critical source of financing home purchases for low- to moderate-income homeowners, especially in communities of color. Borrowers whose loans are sold are typically facing financial stress and have defaulted on payments. According to HUD, once the loan is sold, the borrowers lose their rights to the protections of FHA rules designed to help them avoid foreclosure.

The report confirms earlier findings by HUD’s own inspector general in a 2017 report that the agency did not have federally required rules in place to operate the loan sale program. GAO’s report also found that HUD had no effective systems or benchmarks in place to measure how the program impacted borrowers. Instead, the agency considered preserving homeownership and stabilizing neighborhoods only ancillary benefits and not objectives of program.

“While HUD has an obligation to operate a healthy insurance fund, it also must act to stabilize homeownership,” said Geoff Walsh, a staff attorney with the National Consumer Law Center (NCLC). “The GAO’s report shows that HUD had no rules in place to ensure that the sales would help homeowners, and in fact, the GAO’s data show that homeowners lost out while private equity companies gained.”

In the report on page 56, the GAO noted that HUD admitted that it targeted states with greater borrower protections for its loan sale program. HUD made changes to the program “to make more loans eligible for disposition through DASP sales in certain states that had long foreclosure processes.” States with longer processes, like New York, Illinois, Pennsylvania, and Connecticut, often involve mandatory mediation programs that have proven effective in enabling borrowers to save their homes. According to Walsh, “HUD’s policy specifically undermines mediation programs and other consumer protections built into state foreclosure laws, programs proven to help borrowers avoid foreclosure and investors retain performing loans.”

HUD recently issued a notice to start creation of rules for the Loan Sales Program. NCLC submitted comments on the program, including how it has failed to protect homeowners thus far.

In 2016, NCLC published a detailed report criticizing the loan sale program as favoring loan servicers over homeowners. The GAO report backs NCLC’s claim that borrowers facing foreclosure
do not benefit from having their loans sold.