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INSIGHT

COVID-19: Support for Mortgage Lenders and Servicers

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The coronavirus (COVID-19) pandemic has affected the economy in numerous ways. Many states have issued some variation of a lockdown, restricting when citizens can leave their home and limiting business operations to critical services, such as groceries or pharmacies. Many businesses have closed operations, while others have reduced their workforce considerably. As a result, jobless claims have increased since the outbreak, leaving many consumers struggling to meet their financial obligations. One of the most significant financial obligations consumers are struggling to meet is their mortgage or rent payments.

In the past three weeks, banking regulators have taken measures to provide consumers relief through payment deferral and loan modification plans. (See CRS Insight IN11244, *COVID-19: The Financial Industry and Consumers Struggling to Pay Bills*, by Cheryl R. Cooper.) Federal housing agencies issued a 60-day moratorium on foreclosures and evictions on March 18. In addition, Congress passed the CARES Act (P.L. 116-136), which contains provisions allowing consumers to enter into forbearance (payment deferment) agreements on certain qualifying mortgages and temporarily suspend certain foreclosures and evictions.

If, however, missed loan payments generate mounting losses on depository institutions (i.e., banks and credit unions), their capital can erode quickly. (See CRS Insight IN11278, *Banking Regulators' Response to COVID-19*, by Andrew P. Scott and David W. Perkins for a summary of measures regulators have taken to ensure that financial institutions have sufficient liquidity and capital.) For this reason, the federal housing finance regulators and agencies have taken measures to support mortgage market liquidity.

Federal Housing Measures to Facilitate Liquidity During COVID-19

Many federal agencies are involved in housing finance:

- Fannie Mae and Freddie Mac, commonly referred to as the government-sponsored enterprises (GSEs), provide liquidity to the housing finance market by purchasing mortgages from lenders and subsequently guaranteeing the default risk linked to their issuances of mortgage-backed securities (MBS, a process known as securitization.) In

2008, the GSEs were placed under conservatorship by their primary regulator, the Federal Housing Finance Agency (FHFA).

- FHFA also regulates the Federal Home Loan Bank (FHLB) system, which is also a GSE, and comprises 11 regional banks that provide wholesale funding to its members—mortgage lenders, such as banks, credit unions, and insurance companies.
- Ginnie Mae is a federal government agency that issues MBS linked to mortgages whose default risks are guaranteed by federal agencies, such as the Federal Housing Administration (FHA), Department of Veterans Affairs, and the Department of Agriculture. Ginnie Mae guarantees its MBS investors timely principal and interest payments. (See CRS Report R42995, *An Overview of the Housing Finance System in the United States*, by N. Eric Weiss and Katie Jones.)

The FHFA and Ginnie Mae have recently announced a number of measures to facilitate liquidity by making it easier for mortgage lenders and servicers to receive various forms of short-term cash advances.

Fannie Mae and Freddie Mac Liquidity Provisions

On March 23, 2020, the FHFA announced that it would allow flexibility in some of the appraisal and employment verification requirements for new mortgages purchased by Fannie and Freddie until May 17, 2020. The FHFA also announced on March 23that it was allowing the GSEs to enter into additional *dollar roll transactions*, which allow investors to sell an MBS to a GSE in exchange for cash with an agreement to repurchase a similar MBS at some point in the future. This provides MBS investors such as depositories with temporary cash loans to meet any pressing liquidity needs.

Federal Home Loan Bank Liquidity Measures

During the COVID-19 pandemic, FHFA is allowing FHLB member institutions to post residential mortgages that are in forbearance (i.e., the consumer is deferring payments) as collateral so they can subsequently receive advances from the FHLB. Some of the 11 FHLB institutions have established additional collateral relief programs to allow member institutions to continue receiving wholesale funding.

Ginnie Mae Bridge-Loan Liquidity Mechanism

Approved financial institutions that service mortgages underlying Ginnie Mae MBSs are required to remit timely payments to investors even when monthly payments are not received from borrowers. As consumers are allowed to defer payments and others involuntarily miss payments due to financial hardship, Ginnie Mae servicers—particularly non-depository servicers—could face significant liquidity shortages. On March 27, 2020, Ginnie Mae announced a last resort financing option, the Pass-Through Assistance Program, to allow servicers facing shortfalls to request a cash advance to meet the scheduled payments to investors. These measures are to take effect immediately upon Ginnie Mae's publication of guidance, expected within the next two weeks. These measures apply to single family mortgages. Ginnie Mae also announced that similar programs are expected for reverse mortgages and multifamily mortgages in the near term.

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