 

**Legislative Policy Advisory**

**Current NPL Practices Need Reform**

**Issue**

Continued and more robust efforts are needed to reform practices related to the disposal of non-performing loans (NPL) to stabilize inner-city communities and prevent untimely foreclosures and ensure the fair and reasonable participation of non-profits and minority and women-owned businesses.

**Why NAREB is Concerned**

Fannie Mae is on its third NPL sale: the first was in April of 3000 loans with an unpaid balance of approximately $762 million; the second was completed on September with 3900 loans and an unpaid balance of approximately $765 million and the newest sale was offered on October 9th with 7000 loans totaling approximately $1.2 billion.

The volume and frequency of NPL sales are increasing. It is critical for proactive steps to be taken to provide non-profits and others sufficient “First Look” opportunities, prior to private investors having an opportunity to capitalize on the sales.

**Background:**

The US Department of Housing and Urban Development (HUD) has sold more than $17 billion worth of non-performing loans in the last five years—about 95 percent of which were sold to private investors. Fannie Mae and Freddie Mac have intensified their efforts to sell non-performing single-family mortgage loans in the last year. Since July 2014, Freddie Mac has sold approximately $4.5 billion worth of NPLs through seven bulk sales. Fannie Mae completed its first bulk NPL sale in April including mortgage loans totaling $786 million in unpaid principal balance. (*DS News, September 30, 2015).*

While federal housing officials, for the most part, have welcomed the new financial investors (such as: private equity firms and hedge funds), the investors in these NPLs are too quick to push homes into foreclosure and are even less helpful than banks and mortgage lenders when negotiating with delinquent borrowers. We believe that these sales to private investors have helped continue the destabilization of inner city neighborhoods and prevent the rebuilding of wealth by those who were most impacted by the housing crash.

**Recent Developments**

Some progress has been made with HUD and FHFA. In early September, Fannie Mae sold a smaller “Community Impact Pool” of NPLs including 71 loans, specially geared to engage participation for non-profits, minority-and-women-owned business and community groups (*DS* *News, September 30, 2015*). Additionally, HUD and the Federal Housing Administration (FHA) are attempting to make better use of the Distressed Asset Stabilization Program (DASP) and now require the buyer of loans to delay foreclosure for at least one year.

We applaud the efforts of Senator Elizabeth Warren and Congressman Michael Capuano who continue to reach out to HUD and the Federal Housing Finance Agency (FHFA) urging them to stop selling delinquent mortgage loans to private equity firms. We agree with Senator Warren and Congressman Capuano that non-profits would be more likely to engage in the loss mitigation process with borrowers and prevent foreclosure.

**Recommendations**

We believe that more needs to be done immediately to ensure that non-profits, minority- and women-owned business and community groups are provided robust and reasonable opportunities to participate in this process.

In order to nurture the best caring but proper solution for the consumers involved, an extended “First Look” opportunity must be developed as a requirement for the Federal Housing Agencies, allowing non-profit organizations an extended opportunity to purchase these NPLs prior to financial investors. A rational “First Look” program may consist of 90-120 days of non-profit opportunity to evaluate these NPLs before the market is opened to financial investors.

In addition, approximately 34% of these properties go into foreclosure. Steps need to be in place to ensure that any properties subject to foreclosure be returned to the open marketplace so that those in the community where they are located have an opportunity to purchase the properties.

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