

United States Senate

WASHINGTON, DC 20510

April 21, 2015

The Honorable Julián Castro
Secretary
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Secretary Castro:

We write to share our impressions of and recommendations for improving the Federal Housing Administration's Distressed Asset Stabilization Program (DASP). We applaud FHA's efforts to provide foreclosure alternatives through the creation of DASP Neighborhood Stabilization Outcome (NSO) pools, but we believe that additional steps could be taken to increase positive neighborhood outcomes in our nation's hardest hit communities.

We realize that FHA seeks to minimize losses to the Mutual Mortgage Insurance Fund through its asset sales program, thereby reducing risk to taxpayers. At the same time, however, the program also provides an important opportunity to reduce foreclosures and produce better outcomes for homeowners and communities hardest hit by the foreclosure crisis.

As former mayors, we know how hard homeowners and communities struggle to break the negative cycle of foreclosure, abandonment, disinvestment, and blight. DASP has tremendous potential to help stabilize struggling neighborhoods, as early successes have demonstrated. The initial results also suggest, however, opportunities for changes that can help DASP to better realize its full potential.

Despite program efforts, we know that many mortgages in the current DASP pools will undergo foreclosure, which will result in property vacancies that accelerate the cycle of disinvestment and blight in hardest hit neighborhoods and devastating impacts for families forced to leave their homes.

The creation of NSO pools has helped to preserve homes and reduce foreclosures, particularly when purchasers have been nonprofit or community-focused organizations. According to a September 2014 report by the Center for American Progress, however, private, for-profit investors have won bids on 98 percent of DASP loans, including 88 percent of designated NSO pools. These investors may not always have the same incentives as community-focused organizations when it comes to homeownership retention and community stabilization.

A significant opportunity exists, therefore, to strengthen the program by increasing accessibility for committed community partners and encouraging all participants to maximize outcomes beneficial to homeowners and communities, for both NSO and non-NSO pools.

We ask that you consider the following programmatic changes to better achieve these results:

Encourage servicers to sell more loans through DASP

- To the extent possible given programmatic requirements, FHA can encourage mortgage servicers to make a larger number of loans available for national and NSO pools. FHA can also continue working with servicers to identify a greater number of loans that would fit well into NSO pools.

More direct sales to nonprofits

- FHA can complete additional direct sales of NSO pools to nonprofits.

Nonprofit partnerships

- Among bids by for-profit investors, FHA can provide a preference to those who partner with nonprofits and have a track record of effectively serving homeowners and stabilizing communities.

Greater transparency on program outcomes for both NSO and non-NSO loans

- FHA can expand the content of public information on DASP. Reports on outcomes should be released on a timely, regularly scheduled basis and should include information on the terms of any loan modifications, demographic and geographic information about homeowners, and updates on the process and timing of outcome achievement.
- FHA can require reporting requirements to travel with a loan if it is re-sold.

Requirements for real-estate owned (REO) homes

- FHA can require a certain percentage of any REO homes be sold to an owner occupant, donated to a nonprofit or local government, or converted to affordable rental housing.

Smaller NSO note pools

- FHA can create smaller, more geographically targeted loan pools that would be more manageable for nonprofits and community based organizations.

Stronger NSO requirements

- **Loan modifications:** FHA can strengthen mortgage loan re-performance outcomes by requiring principal reduction for homeowners to not more than 115% of the property's current market value. Studies have shown that principal reduction can be the most effective foreclosure prevention strategy, especially when paired with strong housing counseling.
- **Affordable housing component:** FHA can heighten minimum NSO outcomes, such as requiring that a certain percentage of vacant properties be redeveloped and sold or rented as affordable housing.
- **Commitment to social outcomes:** FHA can award additional points to applicants who commit to achieve more than just the minimum required NSO outcomes.
- **Extended lead time:** FHA can lengthen the lead time for NSO pools, which would allow non-profit and community organizations more flexibility to assemble financing and perform due diligence on loans.

- **First and last look for nonprofits:** FHA could set aside certain mortgage pools and provide socially-motivated nonprofits, who demonstrate capacity and commitment, the first option to bid and/or a “last look” option to exceed the otherwise best bid.

Minimum requirements for all pools. FHA can impose minimum requirements for loans in all pools to keep families in their homes and achieve community stabilizing outcomes, such as:

- **Pre-sale homeowner and taxpayer protections:** Prior to placing a loan in a pool for sale and paying the relevant claim, FHA can require servicers to document and certify compliance with each step of FHA’s sequential loss mitigation review, including documentation of the grounds for denial of foreclosure alternatives. FHA can also require servicers to provide homeowners with notice about the sale process, servicer obligations before and after a sale, and the homeowner’s rights under these transactions.
- **Loan modifications:** FHA can require buyers to work with existing homeowners to keep them in their homes through loan modification, for example by putting all loans through a loss mitigation “waterfall” such as under the Making Home Affordable initiative.
- **Other loss mitigation standards:** If modification is not possible, FHA can require buyers to pursue short sales or deeds in lieu of foreclosure before foreclosing on a property.
- **REO disposition:** For those properties that go to REO, FHA can require the investor to provide an opportunity for owner-occupant purchase before selling the home to another investor.

We were pleased to see that HUD organized a training seminar for non-profit organizations in February to help build capacity and expertise, and we hope to see continued outreach and engagement to community development financial institutions and non-profit organizations as the program progresses.

We appreciate your consideration of these recommendations for reshaping DASP in order to directly help the many thousands of struggling homeowners with delinquent FHA mortgages. We look forward to your response and working together to improve housing outcomes for families in New Jersey and across our country.

Sincerely,



Cory A. Booker
United States Senator



Robert Menendez
United States Senator