

OPPORTUNITY DENIED

HOW HUD'S NOTE SALE PROGRAM DEPRIVES HOMEOWNERS OF THE BASIC BENEFITS OF THEIR GOVERNMENT-INSURED LOANS

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REPORT HIGHLIGHTS

1. **HUD's loan sale program, the Distressed Asset Stabilization Program (DASP), has had a major negative impact on vulnerable homeowners and on federal housing funds.** DASP is the largest auctioning off of government-insured single family mortgage loans in the nation's history. To date, under DASP, HUD has sold over 105,000 FHA-insured home loans valued at \$17 billion, and the private firms that bought most of the loans acquired them at a significant discount. FHA-insured mortgages represent the last recourse for middle and lower income American families, and particularly families of color, who seek to achieve homeownership at reasonable terms.
2. **A few large mortgage servicers caused the problem that DASP was created to fix.** HUD started DASP when the FHA insurance fund faced unprecedented budgetary challenges. A few large mortgage servicers, including Bank of America, Wells Fargo, and JP Morgan Chase, deliberately delayed foreclosures of FHA-insured mortgages. HUD needed to cut further losses and decided to sell off the loans rather than wait for servicers to complete the foreclosures.
3. **HUD has not held the servicers accountable for the problems they caused.** Even though the servicers' delays of foreclosure violated HUD timelines, HUD paid off the servicers' insurance claims when they offered their loans for DASP sales. HUD paid off claims of servicers who had not followed HUD's rules that require completion of loss mitigation reviews for homeowners before foreclosures.
4. **HUD failed to pursue other options for preserving the financial integrity of the FHA insurance fund, including making its servicers follow FHA's loss mitigation rules.** Vigorous enforcement of HUD's loss mitigation requirements for servicers would have allowed homeowners to reinstate loans to performing status. Effective use of FHA's loss mitigation tools reduces losses to the insurance fund and preserves homeownership.
5. **DASP undercuts state foreclosure laws that help preserve homeownership and further HUD's housing goals.** Many state foreclosure laws require that the servicer establish valid authority to foreclose and consider homeowners for alternatives to foreclosure. DASP has allowed servicers to remove cases from the state law foreclosure process instead of complying with these laws.

6. **HUD has systematically excluded the affected homeowners from any role in the DASP loan sale process.** Homeowners who are directly affected by mortgage servicers' practices are in the best position to inform HUD that the servicers are not complying with HUD's rules. HUD has repeatedly rejected demands that it require notices to homeowners before their loans are sold through DASP.
7. **DASP has not helped homeowners in any significant way.** HUD's initial claims that DASP would help homeowners by allowing the buyers of the loans to offer generous loan modifications has not been substantiated by any evidence.
8. **HUD's reliance on financial speculators to generate quick cash has not furthered the policy goals of the FHA program.** Private equity funds and hedge funds are the primary buyers of defaulted FHA loans. These speculators' interest is to maximize profits upon resale of the loans they buy. They do not act to further the goals of preserving homeownership for middle-class Americans, a goal that Congress directed HUD to achieve. HUD has not implemented effective measures to ensure that these buyers further national housing policy goals.