March 1, 2016

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

Hon. Melvin L. Watt, Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20024

Dear Secretary Castro and Director Watt:

We are writing with regard to the bulk sales of distressed properties conducted by the Federal Housing Administration (FHA) and the Government Sponsored Enterprises, Fannie Mae and Freddie Mac ("GSEs").

Many of us have on a number of occasions expressed concerns about the way these programs have been structured and the impact they are having in the communities in which these properties are located. Both agencies have held some smaller, geographically concentrated auctions. FHA has begun to do non-profit only auctions, which is a step in the right direction. However, sale after sale seems to indicate quite clearly that the fundamental approach of these programs, to bundle up hundreds or thousands of properties at a time for sale to the highest bidder, and without sufficient attention to potential outcomes for homeowners, communities, and the affordable housing missions of your agencies, has not changed. We are concerned that this approach represents a huge missed opportunity to prioritize neighborhood stabilization, help alleviate the affordable housing crisis in communities across the country, and to work with organizations that have a track record of preserving homeownership.

We believe there are certain fundamental improvements that FHA and the GSEs should make to these programs to better align them with the goals outlined above.

First, we urge your agencies to disqualify the participation of bad actors. For example, one entity that has been a winning bidder on several occasions is the Lone Star Funds. However, in October the New York Attorney General opened an investigation into the Lone Star Funds and its subsidiary Caliber Home Loans following a rash of complaints about the company's mortgage servicing practices, including loan modifications that temporarily reduce a borrower's payments but then revert back to the original payments often with all the deferred payments added to the back end of the loan.[1] Entities that pay lip service to legitimate loan modification requirements while engaging in unfair or abusive practices towards borrowers should not be able to use government programs to profit from the continuing legacy of the financial and foreclosure crisis.

Second, we ask that these programs be made as transparent as possible. We understand that the auction pools are subject to change because the circumstances of each loan are subject to change and that there are confidential provisions to mortgage loans that cannot be made public. However, at present, it is impossible to determine how the different loan pools are constructed; how properties get assigned to the different auction pools; or how vacant properties are treated versus occupied properties. We request that your agencies clearly spell out the criteria you use to determine which properties go into which pools and why. We also urge increased transparency – including much greater levels of detail – in your reporting on the outcomes of the sales. Greater transparency to individual homeowners, including notice that their home is to be included in a sale, would also help flag loans that are being added to pools inappropriately.

Third, we urge your agencies to recognize the added value provided by purchasers that commit upfront to foreclosure prevention efforts that include quality loan modifications and purchasers that commit to property disposition strategies that prioritize affordable housing. The participation of such purchasers brings benefits to these properties, the homeowners, and the communities in which these properties are located that should be factored into their bids and should be accepted in lieu of higher priced bids. The work these entities do to rehabilitate these properties and achieve favorable outcomes for neighborhoods should not be discounted as immaterial to the price that your agencies will accept.

This can be done in any number of ways – by giving credit or points in the bidding process to purchasers that commit to these higher community outcome standards; by doing direct sales to nonprofit agencies and accepting prices for such sales that recognize the homeownership and neighborhood stabilization goals they will achieve; by increasing the percentage of properties offered to nonprofits; and by designing robust "first look" programs that provide mission driven entities with the initial opportunity to purchase.

Fourth, and closely connected to the above, we are concerned that states and local governments, including state and local housing finance agencies, have to date not been consulted in any meaningful way as to how these programs should be structured, what impact bulk sales could have in their jurisdictions, what role states and localities can play in these programs, or at minimum, if there has even been a process established for notifying states and localities of upcoming sales of properties in their jurisdictions. State housing finance agencies, for example, have built up decades worth of experience and local partnerships that could be deployed to

[1] New York Attorney General Examining Private Equity Firm's Mortgage Business, New York Times, Oct. 6 2015

improve the impacts of these programs on the ground and help address some of the issues we have raised here. We urge you to bring them into the process.

As you take steps to improve these programs, we urge you not to allow an excessively narrow approach to obscure the fundamental goals of promoting sustainable affordable homeownership and creating affordable rental housing. Maximizing sales to purchasers with a track record of preserving homeownership, stabilizing neighborhoods, and creating sustainable affordable and mixed-income housing opportunities is key to achieving these goals. It may be a more time consuming approach than selling off thousands of properties at a time to the highest bidder. It is, however, a more stable approach for communities in the long term and one that is more consistent with your overarching missions.

Sincerely,

Michael E. Capuano
MEMBER OF CONGRESS

Joyce Beatty
MEMBER OF CONGRESS

Xavier Becerra
MEMBER OF CONGRESS

John C. Carney, Jr.
MEMBER OF CONGRESS

Judy Chu
MEMBER OF CONGRESS

Katherine M. Clark
MEMBER OF CONGRESS

Yvette D. Clarke
MEMBER OF CONGRESS

Wm. Lacy Clay
MEMBER OF CONGRESS

Emanuel Cleaver
MEMBER OF CONGRESS

Keith Ellison
MEMBER OF CONGRESS

Daniel Lipinski
MEMBER OF CONGRESS

Zoe Lofgren
MEMBER OF CONGRESS

Stephen F. Lynch
MEMBER OF CONGRESS

Carolyn B. Maloney
MEMBER OF CONGRESS

James P. McGovern
MEMBER OF CONGRESS

Gregory W. Meeks
MEMBER OF CONGRESS

Gwen Moore
MEMBER OF CONGRESS

Ed Perlmutter
MEMBER OF CONGRESS

Mark Pocan
MEMBER OF CONGRESS

Lucille Roybal-Allard
MEMBER OF CONGRESS

Janice D. Schakowsky
MEMBER OF CONGRESS

David Scott
MEMBER OF CONGRESS

Albio Sires
MEMBER OF CONGRESS

Louise M. Slaughter
MEMBER OF CONGRESS

Sam Farr
MEMBER OF CONGRESS

Al Green
MEMBER OF CONGRESS

Raul M. Grijalva
MEMBER OF CONGRESS

Luis V. Gutiérrez
MEMBER OF CONGRESS

Denny Heck
MEMBER OF CONGRESS

James A. Himes
MEMBER OF CONGRESS

Rubén Hinojosa
MEMBER OF CONGRESS

Hakeem Jeffries
MEMBER OF CONGRESS

Marcy Kaptur
MEMBER OF CONGRESS

William R. Keating
MEMBER OF CONGRESS

Joseph P. Kennedy III
MEMBER OF CONGRESS

Dan Kildee
MEMBER OF CONGRESS

Barbara Lee
MEMBER OF CONGRESS

Ted Lieu
MEMBER OF CONGRESS

Eric Swalwell
MEMBER OF CONGRESS

Mark Takano
MEMBER OF CONGRESS

Mike Thompson
MEMBER OF CONGRESS

Niki Tsongas
MEMBER OF CONGRESS

Nydia M. Velázquez
MEMBER OF CONGRESS

Bonnie Watson Coleman
MEMBER OF CONGRESS

Peter Welch
MEMBER OF CONGRESS