Thursday, May 7, 2020

TO: MICHIGAN CONGRESSIONAL DELEGATION

Re: Hardest Hit Fund and SBA Paycheck Protection Program

Dear Representative:

We would like to reinforce our earlier request that you consider funding for state-by-state "Hardest Hit" programs that will help address an expected spike in mortgage loan defaults and the accompanying foreclosures that will result. We first brought your attention to this program last month and during recent phone calls with our congressional delegation and credit union community.

A second objective of this letter is to share some concerns and request for clarification from the Michigan credit union industry regarding the Small Business Administration (SBA)'s Paycheck Protection Program (PPP), along with a request related to future support for small lenders given their focus on the smallest of businesses.

Michigan's credit unions appreciate the significant efforts made by the U.S. Congress to authorize trillions of dollars for economic assistance related to the COVID-19 pandemic and the associated economic stress nationwide. However, if there is a common theme to our input regarding these programs, we would borrow from the name of an inactive, but previously successful program administered by the U.S. Treasury called the "Hardest Hit" program that we referred you to late last month and during recent calls with members of our congressional delegation. As you know, there can never be enough federal money to completely address the severe economic needs of this challenged economy. As a result, it is imperative that future "stimulus" dollars focus as much as possible on the consumers and small businesses "hardest hit" by this abrupt economic shutdown.

We can learn from the Great Recession about its impact on home ownership and the accompanying spike in delinquent mortgage loans and home foreclosures. Michigan was at the epicenter of that challenge due to the many prior years of economic hardship that preceded the 2007-2009 housing-led recession. Here is a link to information on the Hardest Hit Fund:

https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/hhf/Pages/default.aspx

From that site, the program is summarized here:

"The housing crisis that began in 2007 led to unprecedented home price declines and sustained and higher unemployment in certain parts of the country. Families in these areas have been particularly hard hit by this crisis as they have struggled to make their monthly mortgage payments and grappled with deeply underwater mortgages. While the housing market has strengthened in recent years, there

is still an ongoing need to continue to assist homeowners and neighborhoods that continue to experience the negative effects of the financial crisis. As a result in 2016, an [additional $2 billion was allocated to participating HHF states] to continue foreclosure prevention and neighborhood stabilization efforts. Program participants have until the end of 2020 to utilize funds allocated under HHF.

President Obama established the Hardest Hit Fund® in February 2010 to provide targeted aid to families in states hit hard by the economic and housing market downturn. As part of the Administration's overall strategy for restoring stability to housing markets, HHF provides funding for state HFAs to develop locally-tailored foreclosure prevention solutions in areas that have been hard hit by home price declines and high unemployment. From its initial announcement, this program evolved from a $1.5 billion initiative focused on HFAs in the five states with the steepest home price declines and the vast majority of underwater homeowners to a broader-based $9.6 billion initiative encompassing 18 states and the District of Columbia.

States were selected for funding either because they were struggling with unemployment rates at or above the national average or steep home price declines greater than 20 percent. Each state's program was designed and is administered by that state's housing finance agency (HFA).

Hardest Hit Fund programs vary state to state, but may include the following:

- *Mortgage payment assistance for unemployed or underemployed homeowners*
- *Principal reduction to help homeowners get into more affordable mortgages*
- *Help for homeowners who are transitioning out of their homes and into more affordable places of residence*
- *Blight elimination and down payment assistance efforts*

Most HHF programs target assistance toward unemployed homeowners and those with homes that are worth less than the value of their mortgages."

The Washington Post recently shined light on this emerging challenge and we are aware that Congress is looking to allocate funds to help unemployed and under-employed consumers pay their rent and make their mortgage payments.

https://www.washingtonpost.com/business/2020/05/03/may-rent-mortgages-coronavirus/

We believe that the pandemic and the coming recession have a high potential to result in another housing crisis. The driving force behind this housing crisis will be different, but it will likely be broadly distributed across the country and more pervasive as a result of unemployment and the inability for homeowners and renters to make their payments. While not being manifest yet, we see this crisis emerging as relief from expanded unemployment payments, and economic impact payments and voluntary mortgage loan forbearance run their course. The sad reality is that this relief will end in a matter of just a few short months and many homeowners will still be unemployed as the economy struggles to re-open during the pandemic.

This looming financial reality is not only impacting lenders, but also homeowners' equity across the country as home values will likely drop. Lenders cannot solely bear the financial strains associated with mortgage loan forbearance and delays on foreclosure proceedings, at least not beyond a reasonable 3-6 month period. This was anticipated with the Hardest Hit Fund program during the Great Recession.

Similar assistance is badly needed as soon as possible. MCUL respectfully requests consideration for a pool of funds specifically earmarked for housing authorities like MSHDA to create programs that help Michigan-based lenders and the homeowners whose mortgages they service. Here are some specific details associated with this request, all driven by the theme of leveraging finite resources to help address those homeowners and community lenders "hardest hit" by this unique economic crisis:

1. Given the expected high levels of unemployment and the expected slow pace of recovery, more funds are needed than were allocated in the 2007-2009 recession. If Michigan's share is roughly 5 percent of the national pool, and given the need for something on the order of $2 billion for Michigan alone, a total of at least $40 billion should be considered nationally.

2. The Government Sponsored Enterprises (GSEs) guarantee over half of all outstanding mortgages and have the ability to provide significant extended payment forbearance (i.e., The CARES Act gives homeowners the right to request up to 12-months of forbearance on these loans). However, the other mortgages held by, and/or serviced by banks and credit unions, do not carry the same options as GSEs.

   As such, lenders have more risk on the "self-insured" mortgage loans they have on their books and therefore their necessary risk mitigation (i.e., foreclosure) drives them to protect the strength of their institution through foreclosure proceedings. Because all Michigan credit unions and banks are federally insured, this is also driven by regulators expectations for safe and sound operations and the protection of federal deposit insurance funds. These foreclosures, on top of a housing market with too much inventory due to homeowners selling to downsize and get cash out of their homes, will drive home prices lower creating even more strain on the market and another cycle of foreclosures.

   Therefore, those consumers and lending institutions "hardest hit" will be those with portfolios of non-government mortgage loans. In order to leverage the federal dollars, MCUL urges consideration for the MSHDA funds to be limited to these types of mortgage loans or allocate a significant portion for this purpose.

3. Program participation should limit or exclude lenders headquartered outside the target state administering the programs. For instance, although large national banks do hold a significant market share of mortgage loans in each state, due to their size and ability to access capital, their foreclosure mitigation tools are greater and could be dealt with separately, outside the umbrella of the state housing authorities and the Hardest Hit Fund model.

   While the risks are also great to larger banks, if they participate in these state programs, they will likely dominate access to funds that could be better focused on the smaller, local lenders "hardest hit" and their borrowers (hardest hit), who receive more compassionate and caring attention from local lenders.

4. Time is of the essence. Homeowners and renters are likely to start having problems making their payments as unemployment insurance, economic impact dollars and PPP grants are in the rear view mirror. Congress may need to act so that programs can be developed and administered as soon as June or July.

5. While MSHDA and other HDAs undoubtedly have a record of working with the lending community, Congress should mandate that programs be developed with input from the lending community. This is essential for leveraging the dollars and focusing them on the "hardest hit" needs of homeowners.

MCUL would welcome the opportunity to discuss this request further and on behalf of the 5.5 million Michiganders doing business with Michigan's 217 community credit unions, we thank you for your consideration of this important request.

Paycheck Protection Program

The second issue that MCUL would like to address is the SBA's PPP and the desire for additional funds that would be specifically earmarked for smaller businesses served by credit unions and banks with a strong local presence. It is being widely reported that the combined $659 billion in PPP funding was significantly dominated by large national banks. And at least in many cases, especially in the early stages of the program, smaller businesses and their local lenders were not provided with fair access to these important lifeline funds.

If Congress allocates more funding for the PPP, MCUL requests that small lenders and small businesses be given appropriate deference. In the case of Michigan's PPP lending, MCUL can report that the average business loan/grant was under $20,000 and these businesses typically employed fewer than 10 employees each. We can also report that at least 10 percent of the loans went to small business owners who couldn't get loans elsewhere, often ignored by their primary financial institutions, thereby turning to a credit union.

Further, there are still areas of critical clarification needed for both lenders and borrowers under the existing provisions of the PPP. While outlined in Sections 1102 and 1106 of the CARES Act, we still lack specific SBA rules and/or guidance on many key areas. Additionally, we believe that many of provisions of the Act which were put in place with the good intention of getting these funds in the hands of small businesses and their employees quickly, the now real world realities are that businesses in many states are forced to remain closed under local or state government orders focused on fighting the effects of the virus and have resulted in a difficulty for small businesses to effectively use these funds under the strict timelines outlined in the Act.

We explain further here:

Through a series of FAQs and a few interim rules issued by SBA during the last 40 days, we have continued to gain clarification on many questions the industry had with regards to eligible borrowers and items to include in payroll. However, over 30 days after we have received SBA approval on Round 1 submissions, we do not have clear guidance on Section 1106 and forgiveness. Nearing half-way through the eight week period in which funds are to be used, in many cases borrowers are either unable to use the funds as they can't re-open due to government mandate or they are facing the situation where it is difficult to get employees to return to work as unemployment payments with traditional state funds and the additional federal funds of $600 weekly competing against traditional wages.

We do not have forms or an SBA process guidance document that we can share with borrowers on how we will collect the information for submission and it remains unclear on how quickly this process will work. We are unclear whether lenders will simply be the data gatherers or whether in fact, with the numerous amounts of submissions, Treasury will actually have lenders act in this further capacity. Therefore, a straightforward path to forgiveness is needed.

And finally, we have growing concern over recent discussions and focus on a single attestation made by borrowers on their applications "current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant." We understand this in response to some large, well-capitalized businesses receiving these funds but fear this could become a very subjective calculation being applied to our very small businesses as to how much reserves were too much to qualify for these funds. We believe the spirit of the Act was to obtain these funds to continue to employ Americans working in small businesses and that small businesses would need their reserves to fund the other parts of their operations to ensure the ability to re-open when permitted.

Finally, if the PPP continues for another round, MCUL reinforces the need for improved communication/guidance from the SBA including the following key points:

1. We believe that Treasury and the SBA should resume the traditional period calling for feedback following posting in the Federal Register on the proposed, now presumed by many as codified regulations, pertaining to Sections 1102 and 1106 of the Act.
2. We seek that the guidance manual the SBA indicated would be written, be completed and that it incorporates the interim rules and FAQs issued during the process.

3. We also need additional information on how to actually service these loans, if in fact forgiveness is not granted. We seek to understand how to process requests for payment under the guaranty provisions if needed borrowers are unable to re-pay these funds. And finally, we look for guidance on the ability to extend the terms of these loans if borrowers are forced to enter into repayment.

On behalf of Michigan's not-for-profit credit unions, we thank you for your consideration of these requests.

Sincerely,

Dave Adams
President/CEO
Michigan Credit Union League