Congress of the United States
Washington, DC 20515

April 6, 2020

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Dear Chairman Powell,

As we work on stabilization programs for our country, there are many variables to consider. The current COVID-19 crisis is combining pressures in many and various sectors of our economy. Our housing sector faces dire consequences if we cannot avoid the risks now present in our markets. We sincerely appreciate your diligence in these times. We want to bring a difficult balancing act to light for your consideration after listening to the concerns of both lenders and borrowers across many sectors. Our housing finance system is at the center of our concern, and stability is the goal, as we ultimately would like to limit the impact for hardworking Americans.

Mortgage-backed securities (MBS), including private label commercial mortgage-backed securities (CMBS) and commercial real estate CLOs (CRE CLOs), provide strength to the sector by offering liquidity to both bank and non-bank lenders. These securities, by virtue of their link to capital support from Treasury, can provide a buoyancy factor to our nation's economy that must not be lost due to the downward pressure we are currently experiencing caused by rapidly declining prices, an overabundance of sellers, and insolvency. We must take actions at this time that are well balanced in the overall scheme of the financial regulatory structure and must take into account all of the current market conditions.

Of particular concern are two factors which may lead to instability in the mortgage servicing space: required liquidity to advance scheduled payments for borrowers who avail themselves of forbearance options due to COVID-19, such as those outlined in the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, and the pressures that continued margin calls from existing repurchase and warehouse lenders make on market participants as the value of MBS, CMBS and CRE CLO's fluctuate wildly in these unprecedented times. As stated by the Mortgage Bankers Association in a March 22 letter to the Federal Reserve and the Treasury Department, "Mortgage servicers maintain liquid reserves to cover these advances when borrowers miss their payments, but virtually no servicer, regardless of its business model or size, will be able to make sustained advances during a large-scale pandemic when a significant portion of borrowers could cease making their payments for an extended period of time." While this does not apply broadly to every servicer, it is likely that some servicers may ultimately become unable to advance payments on MBS, CMBS, and CRE CLOs. We are of the mind that the Federal Reserve, in coordination with the Department of the Treasury in administering the Emergency Stabilization Fund set forth in CARES, should prioritize ensuring adequate liquidity for the mortgage servicing market for single- and multi-family residential as well as commercial mortgages. It is important that the Federal Reserve and the Department of the Treasury use all available tools to maintain market liquidity.

Furthermore, it is vital that the Federal Reserve's Term Asset-Backed Securities Loan Facility (TALF) program be expanded to include investment grade MBS and CMBS– both agency and private label– as well as CRE CLOs as TALF-eligible collateral. The investment grading should be based on the rating at the date of issuance, as it was for assets that were included later as the 2008 TALF program expanded collateral eligibility. By providing financing to securities purchasers, the TALF program will help stabilize prices for these securities, limit margin calls and fire sales, and preserve liquidity for servicers and lenders. In addition, these actions will bring prices for these securities to par levels and encourage lenders to write new loans to ensure the continued functioning of our affordable housing and commercial real estate markets, as they did in the successful version of TALF during the 2008 financial crisis. Currently, these securities are only pricing for liquidity, and if only AAA securities are accepted as eligible investments at TALF, the market will experience additional liquidity pressures in the likely event that ratings agencies downgrade all AAA securities in the coming months.

We urge that all factors be considered when making this determination, as servicers, bank and non-bank lenders, and homeowners are of the utmost importance because of their interconnections and role in our economy.

Sincerely,

Vicente Gonzalez
Member of Congress

Barry Loudermilk
Member of Congress

Josh Gottheimer
Member of Congress

Ted Budd
Member of Congress