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**Fred R. Becker, Jr.**  
President/CEO

National Association of Federal Credit Unions | [www.nafcu.org](http://www.nafcu.org)

December 11, 2012

The Honorable Robert P. Corker, Jr.  
United States Senate  
Committee on Banking, Housing &  
Urban Affairs  
Washington, D.C. 20510

The Honorable David Vitter  
United States Senate  
Committee on Banking, Housing &  
Urban Affairs  
Washington, D.C. 20510

Dear Senators Corker and Vitter:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the interests of our nation's federal credit unions, I write today as a follow-up to the recent Senate Banking Committee hearing on Federal Housing Administration (FHA) oversight featuring testimony from Department of Housing and Urban Development (HUD) Secretary Shaun Donovan.

During the course of the hearing, you addressed FHA's current policy with respect to those who default on their mortgage not being able to obtain another FHA loan for a minimum of three years. As you also addressed, comparatively, Fannie Mae has instituted a policy that prohibits a borrower that has strategically defaulted from obtaining a Fannie Mae-backed mortgage for seven years. NAFCU member credit unions appreciate your raising this important topic, one that NAFCU has long had concerns about with respect to strategic defaults. As detailed in the attached letter from February, NAFCU formally asked officials at HUD and the FHA to institute policies as soon as possible to discourage strategic defaults. Our concerns in this regard, were further heightened by advertisements in certain areas of the country encouraging strategic defaults given the FHA's three year minimum.

The increasing trend of homeowners who have the capacity to make their mortgage payments, but instead choose to default, is troubling to community based financial institutions like credit unions. Strategic defaults are prolonging the recovery of our troubled housing market and should not be tolerated under the housing policies of the federal government.

The consequence of FHA's shorter three-year lockout period, among other things, is that a borrower with a Government Sponsored Enterprise (GSE)-backed loan can strategically default on their loan and then after three years can obtain a FHA loan. Clearly this policy fails to provide adequate disincentive against strategic default in the housing market. In addition, it advertises the FHA as the place to obtain another loan even after a borrower fails to meet previous

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obligations, which in the case of mortgages backed by the GSEs, become obligations to the taxpayer. Considering the committee's concerns about the solvency of the FHA, ensuring the FHA is not propped-up as a safe haven for those who strategically defaulted on previous mortgages, is a critical part of the safety and soundness conversation.

NAFCU has long supported the important role that FHA plays in our nation's housing market. The FHA's viability is crucial going forward, especially in providing an option for those who otherwise are unable to obtain a mortgage in the conventional mortgage market. The central mission of the FHA must continue to be one that focuses on this demographic, which includes first-time homebuyers who may not have the down payment necessary to obtain a conventional mortgage.

Despite not engaging in the unscrupulous activities that often led many borrowers into mortgages they could not afford, credit unions and their members have been greatly affected by the declining housing market. Like a vast majority of homeowners, many credit union members have seen the value of their homes decline. For members confronted with financial difficulties, credit unions have been second to none in finding creative yet responsible solutions, including refinancing and loan modifications, to help them keep their home.

Thank you for using last week's hearing to raise this important issue. We are hopeful that you will continue to examine this issue and the impact it is having on credit unions and other community based financial institutions. If my colleagues or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact myself or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at 703-842-2204.

Sincerely,



Fred R. Becker, Jr.  
President and CEO

cc: Members of Senate Committee on Banking, Housing, and Urban Affairs

Enclosure: NAFCU's February 3, 2012 letter to HUD Secretary Shaun Donovan regarding FHA policies and strategic default on mortgages.



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Fred R. Becker, Jr.  
*President and CEO*

February 3, 2012

The Honorable Shaun Donovan  
Secretary  
U.S. Department of Housing and Urban Development  
451 7<sup>th</sup> Street S.W.  
Washington, D.C. 20410

Dear Secretary Donovan:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association exclusively representing the interests of our nation's federal credit unions, I am writing to you regarding an increasingly troublesome challenge facing our nation in housing market – strategic defaults. Specifically, I am writing to request that the U.S. Department of Housing and Urban Development and the Federal Housing Administration (FHA) institute policies as soon as possible to discourage strategic defaults.

Under FHA's current policy, persons who strategically default on their mortgages will not be able to obtain another FHA loan for a minimum of three years. Comparatively, Fannie Mae has instituted a policy that prohibits a borrower that has strategically defaulted from obtaining a Fannie-backed mortgage for seven years. The consequence of FHA's three-year lockout period, among other things, is that a borrower with a GSE-backed loan can strategically default on his or her loan and after three years, can obtain a FHA loan.

NAFCU urges the HUD and FHA to increase the lockout period and implement other policies that would ensure that the FHA is not the go-to place for those who strategically default on their mortgages. We do not believe that current FHA policy provides adequate disincentives against strategic defaults in the housing market.

NAFCU has long supported the important role that FHA plays in our nation's housing market. We believe, in particular, the FHA's viability is critical going forward, especially as providing an option for those who otherwise are unable to obtain a mortgage in the conventional mortgage market. A central mission of the FHA must continue to be one which focuses on this demographic, which includes first time homebuyers who many not have the down payment necessary to obtain a conventional mortgage.

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Since the beginning of the economic crisis, spurred in no small part by the rapid decline in the housing market, millions of Americans have seen their home values decline significantly. In a vast majority of cases, even in cases where they are underwater in their mortgages and they are faced with daunting challenges, homeowners have continued to meet their mortgage obligations.

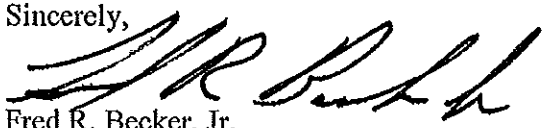
Despite not engaging in the unscrupulous activities that often led many borrowers into mortgages they cannot afford, credit unions and their members have been greatly affected by the declining housing market. Like a vast majority of homeowners, many credit union members have seen the value of their homes decline. For those confronted with financial difficulties, credit unions have been second to none in finding creative yet responsible solutions, including re-financing and loan modifications, to help their members keep their home. Unfortunately, there has been an apparent rise in the number of strategic defaults and increased marketing of the option by companies offering help (for a fee) for underwater homeowners.<sup>1</sup>

As you know, the effect of foreclosures is devastating on families who lose their homes because of their inability to meet their mortgage obligations. Foreclosures, however, also affect their neighbors, the neighborhood and the community at large as foreclosure sales almost always drive house values down. Thus, it is very important that those with an ability to pay are discouraged from walking away from their homes.

NAFCU believes that the HUD, FHA and the Administration should leave no stone unturned in finding creative solutions to the housing crisis. As such, we applaud the Administration's effort, announced this week, to make changes to the FHA refinance streamline program by removing refinanced loans from FHA's "compare ratio" process and facilitate FHA lenders to refinance more FHA loans and consequently help heal the ailing housing market. We believe changes to FHA's policies discouraging strategic defaults will similarly help in this process.

I greatly appreciate your time and attention to this matter. Should you have any questions or would like to discuss this matter further, please contact me at [fbecker@nafcu.org](mailto:fbecker@nafcu.org) or (703) 842-2215 or Dan Berger, Executive Vice President for Government Affairs at [dberger@nafcu.org](mailto:dberger@nafcu.org) or (703)842-2803.

Sincerely,

  
Fred R. Becker, Jr.  
President and CEO

cc: Carole Galante, Acting FHA Commissioner

<sup>1</sup> See, <http://www.realtytrac.com/content/news-and-opinion/youwalkaway-ceo-strategic-default-only-choice-for-some-6989>.

*Mr. Secretary - We  
strongly hope you will  
see it as a date immediate  
action to rectify this  
egregious practice!*