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**Testimony of Jennifer Klein Joseph
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**Before the Committee on Health
Council of the District of Columbia**

Public Hearing Regarding:

**Bill 26-0448
“Uniform Mortgage Modification Act of 2025”**

September 30, 2026

Legal Aid DC¹ submits the following testimony regarding Bill 26-0448, the Uniform Mortgage Modification Act of 2025. Legal Aid supports the bill’s effort to encourage loan modifications so that DC homeowners can avoid foreclosure whenever possible, but we also encourage the Council to add certain interest rate increases to the list of “safe harbor” modifications to ensure that common residential loan modifications are covered by the bill.

Foreclosure prevention work is a core part of Legal Aid’s consumer law practice. Legal Aid’s consumer attorneys regularly represent low-income DC homeowners facing foreclosure in an effort to help them save their homes and preserve their equity whenever possible. A significant part of our work includes helping homeowners apply for loan modifications, and we regularly help homeowners modify their loans as a way to come current on their mortgages and avoid foreclosure. Making loan modifications easier

¹ Legal Aid DC is the oldest and largest general civil legal services program in the District of Columbia. The largest part of our work is comprised of individual representation in housing, domestic violence/family, public benefits, and consumer law. We also work on immigration law matters and help individuals with the collateral consequences of their involvement with the criminal legal system. From the experiences of our clients, we identify opportunities for court and law reform, public policy advocacy, and systemic litigation. For more information, visit www.LegalAidDC.org.

to obtain is an important goal that will ensure that as many DC homeowners avoid foreclosure as possible. Helping District homeowners save their homes is critical given the disruption that foreclosures can cause for individual families and the community,² and the racial disparities in homeownership rates, with Black homeownership rates lagging behind white rates of homeownership.³

The goal of the Uniform Mortgage Modification Act of 2025 is to make mortgage loan modifications easier for homeowners to obtain. It does that by classifying certain common modification terms as “safe harbors” and making clear that loan modifications with those characteristics will not alter the priority of the loan being modified. Providing that certainty to lienholders is beneficial to homeowners because it makes it more likely that a mortgage holder will be willing to modify their loan.

However, one common modification feature, interest rate increases, is not on the safe harbor list. The omission of interest rate increases from the safe harbor list may lend support to the idea that interest rate increases prejudice junior lienholders, and therefore arguably cause a loss of priority for the mortgage holder offering a loan modification. If first priority lienholders (such as purchase money mortgages lenders) believe that offering a modification with an interest rate increase will jeopardize the priority of their lien, they may require the consent of junior lienholders before agreeing to a loan modification, or they may be entirely unwilling to modify the loan. That could in turn result in fewer loan modifications and more homes lost to otherwise avoidable foreclosures.

Legal Aid DC Encourages the Committee to Add Certain Interest Rate Increases to the Safe Harbor List of Modifications

The bill encourages loan modifications by creating a safe harbor for common loan modification characteristics, including maturity date extensions and capitalizing unpaid interest. The safe harbor also includes changes to the interest rate, so long as the change does not result in an increase. While well-intentioned, this limitation is potentially problematic because interest rate increases are commonplace in today’s higher-interest rate climate. As of the week of September 24, 2026, the Freddie Mac Primary Mortgage

² See Diamond, Rebecca and Guren, Adam M. and Tan, Rose, *The Effect of Foreclosures on Homeowners, Tenants, and Landlords* (June 2020). NBER Working Paper No. w27358, available at SSRN: <https://ssrn.com/abstract=3632603>.

³ D.C. Fiscal Policy Institute, *DC Can Advance Racial Equity and Black Homeownership through the Property Tax*, (Oct. 17, 2023), available at <https://dcfpi.org/all/dc-can-advance-racial-equity-and-black-homeownership-through-the-property-tax/>.

Market Survey (PMMS) rate for 30-year fixed-rate mortgages is 7.03%.⁴ Today's rates are the highest they have been in 20 months,⁵ and are part of an overall affordability crisis in the housing market.⁶

Because interest rates are so high, even when homeowners are eligible to modify their mortgages, the modifications offered by mortgage servicers often include an interest rate increase. Interest rate increases happen even with federally backed loans, such as those insured by the Federal Housing Administration (FHA) and the Department of Veterans Affairs. Federally guaranteed loans like FHA, VA, and U.S. Department of Agriculture (USDA) loans all follow standardized processes for modifying loans in default, and those processes are pegged to the Freddie Mac PMMS rate for 30-year fixed rate mortgages in effect at the time of the modification.

For example, the modification process for loans backed by the FHA involves adjusting the delinquent loan's interest rate by changing it to the "market rate," which is calculated by taking the Freddie Mac PMMS rate for 30-year fixed rate mortgages and adding up to 0.25% to the rate.⁷ For an FHA homeowner who originally obtained their mortgage years ago when interest rates were several percentage points lower than they are today, an FHA modification will necessarily involve an interest rate increase because the FHA guidelines use the current Freddie Mac PMMS rate as the starting place for determining the new modified interest rate on the loan.

⁴ Freddie Mac Primary Mortgage Market Survey, U.S. Weekly mortgage rate averages as of 09/24/26, https://www.freddiemac.com/pmms?gad_source=1&gad_campaignid=23396332682&gbraid=OAAAAA-zPkSq6CMTP1qYOb8W1tFFdlA-Su&gclid=Cj0KCQjwINPVBhCMARIsAPZ5Rqi-Cepi8oGr8R6nb9dpKXGrGbil7TkOCIRDNmXJJV6YeifF63rAUY8aAth3EALw_wcB.

⁵ NPR, *Mortgage rates have just surpassed 7% for the first time in well over a year*, (Sept. 24, 2026) available at <https://www.npr.org/2026/09/24/nx-s1-5977796/mortgage-rates-freddie-mac-homebuying>.

⁶ See Miskin, Shaina, *Housing Affordability Is at a 40 Year Low—and 7% Mortgage Rates Only Tell Half the Story*, Barron's (Sept. 28, 2026), available at <https://www.barrons.com/articles/housing-crisis-mortgage-rates-hurt-so-much-e99a4c0e>.

⁷ See U.S. Dep't of Housing and Urban Development, Mortgage Letter 2025-06, (Jan. 16, 2025), available at <https://www.ncsha.org/wp-content/uploads/mortgagee-Letter-2025-06.pdf>

Modifications for loans insured by the VA are calculated similarly: by taking the Freddie Mac PMMS rate and adding 0.50% to that rate.⁸ Modifications of residential home loans insured by Fannie Mae or Freddie Mac can also result in interest rate increases, although it is less common and should only occur in certain circumstances with adjustable-rate mortgages.⁹

Because interest rate increases are common in today's marketplace, particularly for borrowers with FHA and VA loans, we encourage the Council to mark up the bill to add interest rate increases that follow loan modification guidelines issued for federally guaranteed loans to the safe harbor modification list.

Conclusion

We encourage the Council to pass the Uniform Mortgage Modification Act of 2025 after adding certain interest rate increases as discussed above to the safe harbor list. We thank the Committee for the opportunity to submit this testimony.

⁸ U.S. Department of Veterans' Affairs, VA Manual M26-4, Chapter 5, Loss Mitigation (June 1, 2026), available at https://www.knowva.ebenefits.va.gov/system/templates/selfservice/va_ssnew/help/customer/locale/en-US/portal/554400000001018/content/554400000314374/VA-Manual-M26-4-Chapter-05-Loss-Mitigation-101.

⁹ See Fannie Mae Servicing Guide, F-1-27, Processing a Fannie Mae Flex Modification (08/13/2025), available at <https://servicing-guide.fanniemae.com/svc/f-1-27/processing-fannie-mae-flex-modification-P11426> (for ARM or step-rate mortgages, the modified interest rate is set to the *greater of* the contractual interest rate in effect for the payment due in the month of the modification evaluation or, the Fannie Mae Modification Interest Rate); Freddie Mac Single-Family Servicing Guide, 9206.2 Modification terms, trial period and conditions of a Freddie Mac Flex Modification, available at <https://guide.freddiemac.com/app/guide/section/9206.2>.