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2018 CHLA Report on Independent Mortgage Bankers (IMBs)

IMBs Continue Strong Market Share Growth

How IMBs Provide Consumer Access to Mortgage Credit –

With Extensive Regulation and Low Levels of Financial and Systemic Risk

Community Home Lenders Association (CHLA)
August 2018

Preface

The Community Home Lenders Association (CHLA) is the distinct national voice and advocate for small and mid-sized independent mortgage bankers (IMBs), and the only national association that exclusively represents non-bank mortgage bankers. CHLA educates Congress and federal agencies on how IMBs led the way in making affordable mortgage loans, particularly for 1st-time homebuyers, as many banks exited the market after the 2008 Housing Crisis.

CHLA is pleased to release its second annual Report on IMBs - highlighting the critical importance of independent mortgage bankers to consumers, to mortgage markets, to the housing market, and ultimately to the economy.

Banks and credit unions (depository institutions) and investment banks provide the great majority of credit for our nation's businesses and individuals. However, the mortgage market is different. **A majority of new mortgage loans are now being originated by non-bank lenders (IMBs).**

IMBs are also important and distinct for a number of other reasons:

- IMBs are the true small businesses in the mortgage market;
- IMBs are heavily regulated, yet they are not backed by taxpayers - unlike banks (whose deposits are FDIC-insured) or investment firms (whose clients' accounts are SIPC-insured);
- Since the 2008 housing crisis, IMBs have significantly increased their market share of mortgage lending, as many banks exited the market or imposed credit overlays; and
- IMBs – particularly small and mid-sized lenders - provide more personalized service (both in mortgage origination and servicing) than the large, national banks and other national lenders.

This CHLA report explains:

1. **Who IMBs are,**
2. **IMBs' critical role in the mortgage market,**
3. **Financial, Systemic Risk, and Consumer Risks of IMBs Are Low,**
4. **How IMBs are regulated at both the federal and state level, and**
5. **Key mortgage issues before Congress and federal agencies affecting IMBs.**

The report concludes by outlining CHLA's Policy Agenda, which distinctly reflects the interests and priorities of IMBs at the federal level.

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Who Independent Mortgage Bankers (IMBs) Are

Small Businesses

IMBs are small businesses that originate mortgage loans and service those loans.

Not Taxpayer Insured

Unlike banks that have deposits backed by the taxpayer (FDIC), IMBs rely on their own capital, plus outside loans, commonly from warehouse banks. IMBs' success is based on personal relationships and financial stability. Owners put their reputation and personal net worth on the line every day.

Extensively Regulated

Non-bank IMBs are arguably the most heavily regulated type of mortgage lender. IMBs are:
(1) regulated by the CFPB, (2) regulated by every state they do business in, and (3) regulated by federal lending programs they utilize (FHA, RHS, VA, Fannie, Freddie). Moreover, every mortgage loan originator (LO) at an IMB must (a) pass the SAFE Act test, (b) pass an independent background check, (c) complete 20 hours of SAFE Act pre-licensing courses, and (d) complete 8 hours of annual continuing education. LOs at banks and credit unions are EXEMPT from ALL of these requirements.

Committed to Mortgage Lending

IMBs' primary or only business is mortgage lending, not cross selling other products like credit cards, insurance, or stocks and bonds. When the many banks left the mortgage business after the 2008 housing crisis, IMBs increased mortgage origination, because that is what they do for a living.

Committed to Local Communities

IMBs are small businesses that create local jobs, serve borrowers in their community and keep the servicing of these loans local and personalized. In the aftermath of the 2008 housing crisis, IMBs worked closely with defaulted borrowers – while complaints about the big banks proliferated.

What IMBs are Not

- **IMBs are not Wall Street.** They did not slice and dice the kinds of exotic or risky mortgage backed securities (MBS) that brought down the mortgage market in 2008.
- **IMBs are not mortgage brokers.** They close loans with their own funds, and are financially accountable for underwriting quality (FHA indemnification, GSE reps and warrants).
- **IMBs are not typically portfolio lenders.** A majority of mortgage loans that IMBs underwrite are through lending programs like FHA, RHS, VA, Fannie Mae, and Freddie Mac.

Community IMBs Differ from Large IMBs

- While there is not a precise definition of a community IMB, such firms are generally characterized as having a physical presence in the communities they serve, as having limited loan origination and servicing volumes, and as having either a local or regional market focus.
- Community lenders are distinct from national IMBs with significant mortgage loan volume.
- Community lenders are distinct from large IMB mega-servicers.

- **Federal mortgage policies and programs should continue to reflect these differences between smaller, community-based IMBs and large, national IMBs.**

Emerging Myths about the "Risks" of IMBs

In light of the impact of the 2008 housing crisis, it is prudent to be vigilant about risks in the mortgage market. It is also fair to focus on IMBs, given their significant growth in market share.

Recently, though, reports and warnings have emerged alleging that IMBs represent a significant new risk, and that action is needed to address such risk – the most notable being a March 2018 Report by the Brookings Institution. Unfortunately, that Brookings Report makes many sweeping, inaccurate claims, and fails to make important distinctions between a few systemically large and important IMBs and the overwhelming majority of smaller, community IMBs. For example:

BROOKINGS CLAIM: ***". . . liquidity risk associated with the non-bank mortgage sector was . . . a key driver of the [housing] crisis. . ."***
THE FACTS: *The mortgage crisis was primarily caused by risky Wall Street subprime loan securitizations and was precipitated by the fall of Lehman Brothers. The business model and practices of non-bank firms like Countrywide and New Century bear no resemblance to the overwhelming majority of IMBs operating today.*

BROOKINGS CLAIM*: ". . . these same vulnerabilities are not only still present, but pose an even greater risk to the system today because the nonbank sector is an even larger part of the market."*
THE FACTS: *This claim ignores many post-2008 reforms, including QM (Ability to Repay), the shutdown of the Wall Street subprime PLS securitization market, and numerous new Dodd-Frank mortgage rules.*

BROOKINGS CLAIM: ". . . nonbanks have limited resources to draw upon and the government would probably bear the majority of increased credit and operational losses."
THE FACTS: *Unlike banks that have FDIC insurance, taxpayers don't have direct exposure to an IMB failure. IMBs are subject to net worth, liquidity, and bonding requirements set by every state in which they do business, and are subject to significant financial and underwriting scrutiny for government loan programs like FHA.*

BROOKINGS CLAIM: ***". . . mortgages originated by nonbanks are of lower credit quality than those originated by banks, making nonbank lenders more vulnerable to delinquencies . . .."***
THE FACTS: *IMBs have statistically lower credit quality loans than banks largely because banks have abandoned FHA, the program serving qualified borrowers with lower FICO scores and downpayments. And, program guidelines like FHA's Neighborhood Watch and GNMA's DQP ratios limit their loan loss exposure.*

The simplest way to assess the so-called "risk" of IMBs is to analyze their component parts:

Taxpayer Risk. Unlike banks and credit unions, IMBs are not backed by the FDIC or any other taxpayer mechanism. It is true that IMBs underwrite FHA, RHS, and VA loans, and issue GNMA securities. But these programs have strict underwriting and issuance guidelines, net worth requirements, and financial penalties (indemnification, reps and warrants) for faulty underwriting.

Systemic Risk. While the dissolution or bankruptcy of a large IMB could have consequences for systemic risk, for the overwhelming majority of IMBs (both small and mid-size), the demise of any one firm, or even a number of them, would have a very limited impact – i.e. their loss as a lending source going forward and the relatively easy task of finding a servicer to take over their portfolio.

Consumer risk. IMBs are subject to all federal mortgage rules, and objectively are subject to more extensive consumer protections than banks (see page 11). Unlike banks, every mortgage loan originator at an IMB must meet stringent SAFE Act testing and licensing requirements. And, unlike 99% of banks, all IMBs (no matter how small) are subject to CFPB exams and enforcement actions.

IMBs' Response to the Housing Crisis

Causes of the Housing Crisis

While public debate continues about the origins of the housing crisis, there is little dispute that major factors leading to the crisis were: (1) the explosion of the subprime mortgage market through the funding and securitization of risky mortgage loans by the large investment banks, (2) rating agencies inappropriately rated the resulting MBS, and (3) banks, insurers like AIG, and other investors either investing in or guaranteeing these risky MBS. To maintain market share, Fannie Mae and Freddie Mac got into trouble through Alt A loans and risky MBS purchases.

Like all other mortgage loan originators, IMBs participated in underwriting some subprime loans. However, their role was dwarfed by the origination levels of banks and mortgage brokers.

Moreover, AIG, major investment banks, and large FDIC-insured banks received hundreds of billions of dollars in US taxpayer bailout assistance through TARP and Federal Reserve advances. In contrast, IMBs did not receive taxpayer assistance – and do not pose a systemic risk.

Response to the Housing Crisis – IMBs Lead the Way on Access to Credit

- The turbulence of the housing crisis resulted in the collapse of Private Label Securities (PLS). FHA, Fannie Mae and Freddie Mac stepped in to insure or purchase most new mortgage loans.

- **Many large banks scaled back their mortgage business.** For example, Bank of America terminated their correspondent lending business for smaller originators. And, many banks imposed credit overlays, even for FHA-insured loans - limiting mortgage loans to only the highest FICO or credit quality borrowers.

- **While banks were retreating from mortgage lending, IMBs filled the resulting mortgage access to credit gap through increased levels of mortgage origination.**

- This is confirmed in an August 2017 Urban Institute Report entitled "*Housing Finance at a Glance.*" In a section entitled **"The Growing Importance of Nonbanks in the Mortgage Market,"** the Urban Institute Report states that *"**Nonbank financial institutions have played an increasingly important and growing role in servicing and originating mortgages in the post-crisis years.** . . . But the role of nonbanks goes beyond just originating more mortgages**. They have also played an important role in easing access to mortgage credit."***

- **Nonbanks also led the way in providing mortgage credit for first-time homebuyers and low- and middle income borrowers.** The same Urban Institute Report states that **". . . the median FICO score for nonbank originations has been consistently less than the median FICO for bank originations for all three agencies"** [referring to Fannie, Freddie and GNMA]. The report also notes that **"the median DTIs of non-bank loans are higher, indicating the nonbanks are more accommodating in the DTI dimension as well as the FICO dimension."**

- Finally, regarding mortgage servicing, the great majority of post-crisis consumer complaints and large servicing fines and settlements were focused on the largest bank mortgage lenders. **IMBs were generally credited with better, more responsive servicing, including better loss mitigation to keep distressed borrowers in their home.**

IMB Share of the Mortgage Market Has Grown Significantly

The retreat of banks from mortgage lending and the extent to which IMBs stepped up efforts to provide mortgage credit to fill the gap is backed up by hard market share analysis.

BROAD MORTGAGE MARKET:

- An August 2017 Urban Institute Report has market share tables, noting: ***"Within the agency space (i.e. Fannie Mae, Freddie Mac and Ginnie Mae-backed loans), the share of mortgages originated by nonbanks has doubled from 30 percent in 2013 to 60 percent in 2017."***

FANNIE MAE AND FREDDIE MAC

- **Fannie Mae:** That same Urban Institute Report states that: ***"Nonbanks currently account for 50 percent of Fannie Mae purchases (up from 37 percent in 2013). . .."***
- **Freddie Mac:** That same August Urban Institute Report states that: ***"[Nonbanks currently account for] 47 percent of Fannie Mae purchases (up from 17 percent in 2013)."***

FHA

As the Administration's FY 2018 Budget notes, "*The Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to borrowers for whom the conventional market does not adequately serve. These include first-time homebuyers, minorities, lower-income families, and residents of under-served areas (central cities and rural areas)."* Historically, FHA has served a disproportionate portion of 1st time homebuyers, thus playing a critical access to credit role in promoting homeownership and stabilizing housing prices.

Charts using data from FHA and GNMA on pages 8 and 9 of this Report show the dramatic increase in non-bank market share in these two programs.

- **The chart on page 8 shows that the IMB non-bank market share of FHA has increased from 57% in 2010 to 85% in 2016. Historical data going back several decades shows that IMBs have always played a critical role in FHA lending - consistently averaging over 50% of the FHA market. But the chart shows that nonbanks are now dominating FHA lending.**

GNMA

GNMA facilitates a secondary market for FHA, Rural Housing Service (RHS) and Veterans Administration (VA) mortgage loans – through issuance of GNMA-backed securities.

- **The chart on page 9 shows that IMB non-bank market share of GNMA issuance increased in that same period, but in a more dramatic fashion – from 18% in 2009 to 78% in 2018.**

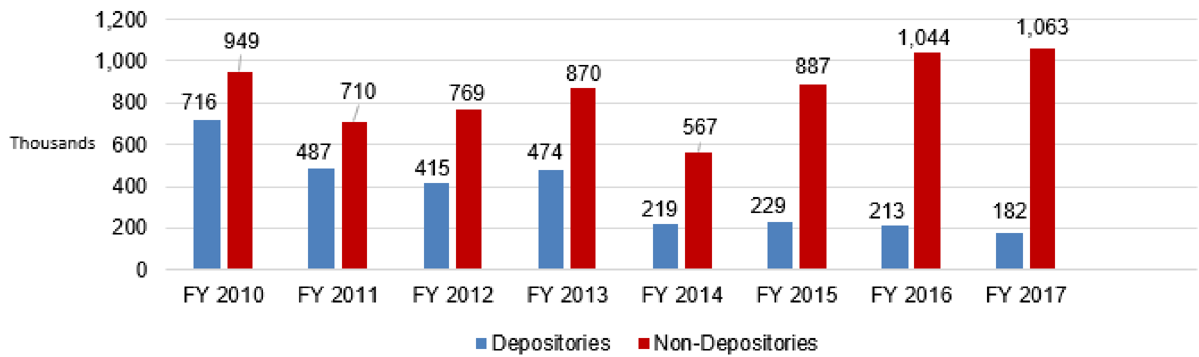
  This increase is more dramatic than the FHA increase. CHLA believes GNMA growth is due to two factors. As noted in the chart on page 8, the nonbank share of the FHA market has grown measurably during the period. Secondly, as banks left the correspondent loan business, more IMBs began using GNMA to securitize their FHA loans through GNMA issuance**.**

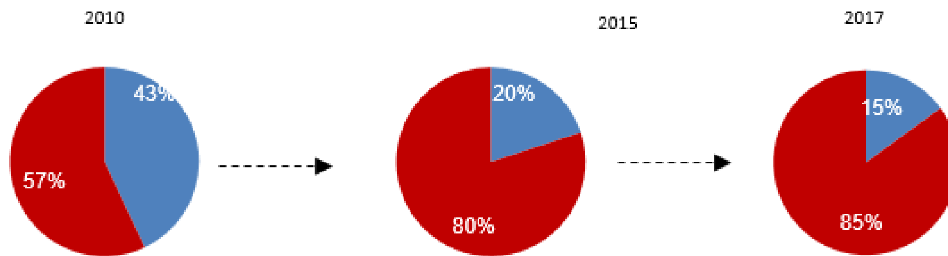
IMBs' SHARE OF THE FHA MARKET

1

Federal Housing Administration Loan Endorsements: Fiscal Year 2010 - 2017

Originator Profile: Non-Depository vs. Depository

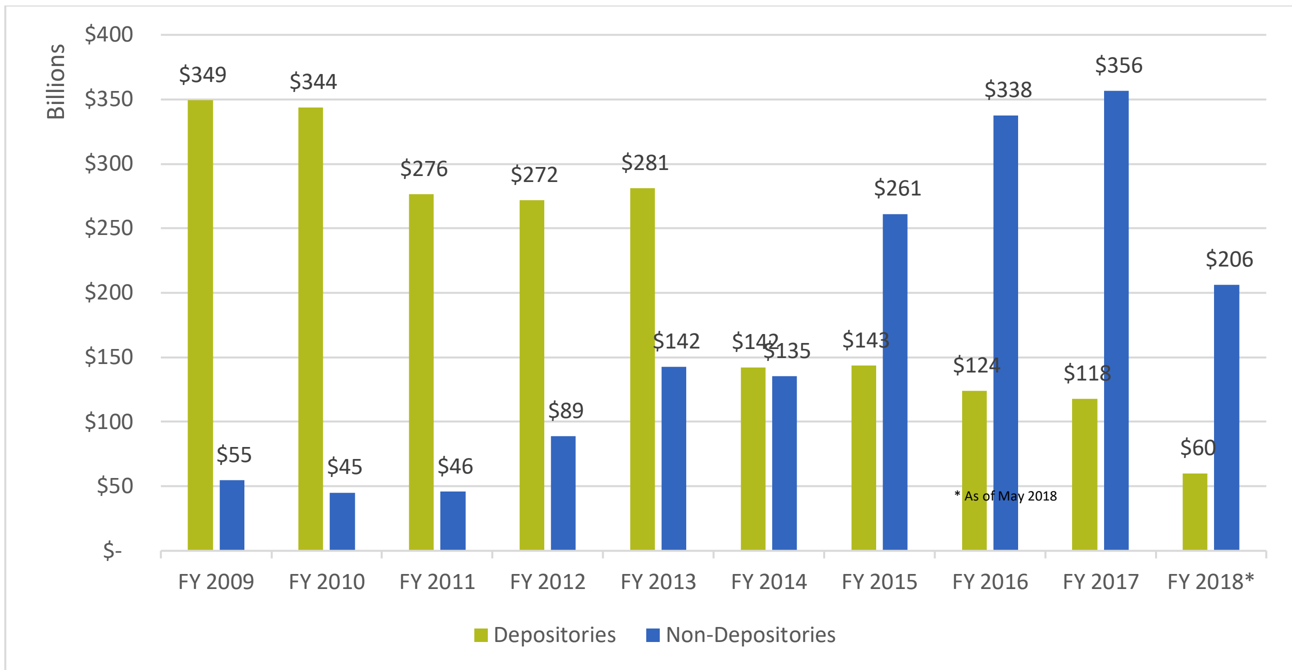


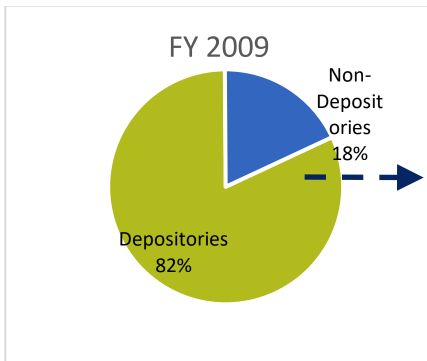


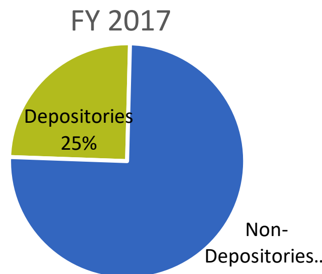
Source: FHA. Numbers of Loans in Thousands

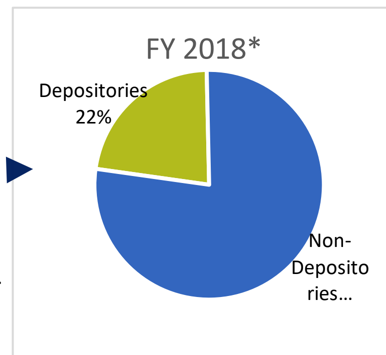
IMBS' SHARE OF GINNIE MAE MARKET

Single Family Depository vs. Non-Depository Portfolio (Issuances)









Source: GNMA. Dollar Amounts in Billions

IMBs are Extensively Regulated

The 2008 housing crisis showed that even the largest financial institutions can have financial and consumer problems – which led to many new regulations. Unfortunately, for some, the myth that non-bank mortgage lenders are not fully scrutinized persists. But this perspective is contradicted by the facts. The following four pages extensively compare regulation of banks vs. non-banks. **Not only are IMBs extensively regulated - in many areas they are more regulated than banks.**

IMB Loan Originators Meet MUCH More Rigorous Standards than Bank Loan Originators

In order to be licensed as a mortgage loan originator (LO) at a non-bank, every LO must:
(1) complete 20 hours of pre-licensing SAFE Act courses, (2) pass the SAFE Act Test, (3) pass an independent background check, and (4) complete 8 hours of SAFE Act continuing education courses each year. **In contrast, all bank and credit union LOs are exempt from all four of these requirements – and thousands of registered bank LOs have actually failed the SAFE Act test.**

IMBs Are subject to Duplicative Consumer Regulation – Unlike 99% of Banks

IMBs are subject to regulation and supervision by every state in which they do business. With regard to the broad range of consumer rules, expanded by Dodd-Frank, **IMBs are also subject to duplicative supervision and enforcement by the CFPB. In contrast, 99% of banks are exempt from CFPB supervision and enforcement**. Commenting on this issue, the June 2017 Treasury Report on regulation stated that ***"The CFPB's supervisory authority is duplicative and unnecessary"*** – calling it ***"unjustified as applied to non-banks"*** and noting that before Dodd-Frank, these companies were regulated by the states which continue to license and supervise them.

IMBs Are subject to Extensive Regulation as Underwriters of FHA, RHS, VA, Fannie/Freddie Loans

A majority of loans originated by IMBs involve federal loan programs – FHA, RHS, VA, Fannie Mae and Freddie Mac. These programs impose strong net worth and operational requirements governing both mortgage loan origination and servicing – which apply almost identically to non-banks and banks. These programs also impose financial penalties for faulty underwriting: indemnification in the case of FHA and reps and warrants for GSE loans.

IMBs Are subject to All the Federal (and State) Consumer Mortgage Rules

IMBs are subject to all the consumer protection rules that apply to all mortgage lenders, including RESPA, QM, LO Comp, Anti-Steering, TRID, HOEPA, TILA servicing requirements, and others.

IMB Financial Regulation Differs from Banks -- Because there is no Federal Taxpayer Backstop

Non-bank mortgage lenders are subject to net worth, liquidity, and bonding requirements set by all the states they do business in, as well as periodic state exams. They are subject to significant financial scrutiny by the warehouse lenders that fund them. While financial supervision of IMBs is not as rigorous as financial supervision of banks, there is a simple reason for this difference. **Bank deposits are guaranteed by the FDIC, and ultimately federal taxpayers; IMB assets are not.** And, non-bank mortgage lenders have a single product line (mortgage origination and servicing), while banks offer a wide range of financial products and services, which requires more supervision.

REGULATORY COMPARISON ---
NON-BANK MORTGAGE LENDERS AND BANKS - Single Family Mortgage Loans

Community Home Lenders Association
[First Released 9/2/15] [Updated 9/5/17]

CONSUMER REGULATION

	NON-BANKS	BANKS
SAFE ACT: Mortgage Loan Originator Requirements	**Every individual Mortgage Loan Originator at a non-bank must:** *** Must be licensed under state law** *** Complete SAFE Act Mortgage Test** *** Complete 20 hours SAFE Act Pre-licensing Courses** *** Complete 8 hours/year of SAFE Act Continuing Education** *** Pass an Independent Background check** *** Additional state requirements**	**Loan originators working at a bank:** *** Must be registered as a loan originator** *** EXEMPT from SAFE Act Test** *** EXEMPT from Pre-Licensing Requirement [training required commensurate with job]** *** EXEMPT from Continuing Education** ***EXEMPT from independent background check; the bank must conduct its own background check**
CFPB Enforcement and Exams	**All non-bank mortgage lender/servicers are subject to CFPB enforcement and exams– covering compliance with RESPA, LO Comp, servicing, and all other statutory mortgage requirements**	**EXEMPTION: 99% of all banks are exempt from CFPB enforcement [i.e. banks with under $10 billion in assets are exempt]**
Consumer Compliance by Primary Regulator	**Non-bank lender/servicers are subject to regulation and periodic consumer compliance exams (RESPA, LO Comp rules, servicing requirements, etc.) in every state in which they do business.**	**IDENTICAL – except these exams are conducted by their banking regulator.**
Dodd/Frank Provisions	**Non-bank servicers are subject to all Dodd-Frank consumer protections – RESPA, TILA, LO Comp rules, predatory lending prohibitions, and Reg Z and X servicing requirements (except that some exemptions exist for servicers servicing fewer than 5,000 loans)**	**IDENTICAL**

Servicing Net Worth/Liquidity Requirements

	NON-BANKS	BANKS
GINNIE MAE (GNMA)	* Net Worth Requirement - $2.5 million, plus .35% (35 basis points) of GNMA combined securities obligations and commitment authority * Liquidity Requirement: Liquid assets of at least the greater of $1 million or .1% (10 basis points) of GNMA securities obligations * Capital Requirement: 6% Net Worth/Total Assets Ratio * Quality Control (QC): Required QC plan - underwriting, origination, servicing and secondary marketing * Must meet GNMA requirements for bond administration, delinquency guidelines, and others	* Generally have to be "Well Capitalized," in accordance with bank regulatory standards * SIMILAR * SIMILAR
Fannie/ Freddie/ FHFA	* Net Worth Requirement: $2.5 million, PLUS a dollar amount that represents .25% of the unpaid principal balance (UPB) of the seller/servicers' total portfolio of 1-4 unit residential mortgage loans for which the entity is obligated to service. * Liquidity Requirement: .035% (3.5 basis points on total agency (combined Fannie, Freddie, and GNMA) serviced loans PLUS 2% (200 basis points) of non-performing agency loans that exceed a 6% default ratio * Seller-servicer Agreement spells out origination and servicing responsibilities, including Quality Control * Extensive audits of loan files * Repurchase Obligation if underwriting rules not followed	* SUBSTANTIALLY SIMILAR, except banks are permitted to use assets and capital from their banking operations to qualify
Non-Agency	* There is no national standard; each state can set forth its own requirements. * CSBS has proposed new model prudential servicing standards for non-bank lender/servicers, comparable to FHFA standards.	*Federal banks are not subject to state regulations regarding servicing net worth or liquidity requirements. * State banking requirements vary by state

Loan Origination Net Worth and Operational Requirements

	NON-BANKS	BANKS
FHA	* Net Worth Requirement of $1 million + 1% of FHA loans > $25m [up to max of $2.5 m] * FHA approval of a Quality Control (QC) Plan * Credit Watch – loan default performance must be within reasonable numerical bands * Individualized loan (PETR) reviews * Audits of FHA loans; and HUD IG audit authority * Indemnification of losses where lender did not follow FHA loan underwriting guidelines *Enforcement authority over FHA requirements	* SIMILAR
RHS	* Must be approved for loan origination or servicing by FHA, VA, Fannie Mae, Freddie Mac, or the Farm Credit System * Must have a quality control (CQ) plan * Periodic compliance reviews	* IDENTICAL. Banks also deemed approved if supervised by the FDIC, Federal Reserve, OCC, or Federal Housing Finance Board. * IDENTICAL * IDENTICAL
VA	"Non-supervised" VA approved lenders must have a minimum net worth of $250,000 and have unrestricted credit lines of at least $1 million	* SAME
Fannie/ Freddie/ FHFA	* See previous Servicing section for their requirements	* See previous Servicing section for requirements
Non-Agency	* PORTFOLIO – No mortgage specific regulations – except few non-banks originate mortgages for portfolio *MBS – Subject to securities regulation	* PORTFOLIO – no mortgage specific regulations * MBS – Subject to securities regulation

	NON-BANKS	BANKS
Net Worth & Liquidity Requirements and Examinations	*** Non-bank mortgage lenders are subject to net worth, liquidity, and bonding requirements set by the states in which they do business, and periodic state exams** **These requirements are appropriate in light of their risk, and the fact that unlike banks, their deposits are not guaranteed by the FDIC, and ultimately federal taxpayers** **Moreover, non-bank mortgage lenders have a single product line – mortgage origination and servicing – and many predominately originate federally guaranteed loans** *** Impact of non-bank lender going out of business:** **1. Servicing advance obligations and MSR transfers**– Per above, GNMA, FHFA/GSE, and state regulations protect consumers and the agencies with respect to these obligations **2. Indemnification/repurchase obligations**– Per above, GNMA and FHFA/GSE regulations protect agencies from counterparty risk, and aggregators and securitizers set standards for non-agency loans to address their counterparty risk **3. Other Impacts:** All losses are absorbed by private parties – the owner(s) of the firm (who may also have other assets at risk through a personal guarantee) and other parties (warehouse lenders, counterparty entities). There is no federal taxpayer impact Thus, the main impact of a non-bank mortgage lender failure is that they will no longer be able to originate mortgage loans	*** Banks are subject to net worth and safety and soundness regulations, and periodic bank examinations by their respective bank regulator** **These are driven by federal taxpayer exposure through a guarantee of their deposits by the FDIC** **Regulation also addresses risk of other products and activities that banks engage in, such as construction lending, small business loans, etc.** *** Impact of bank going out of business:** **1. IDENTICAL** **2. IDENTICAL** **3. Other Impacts of bank failure:** FDIC resolution kicks in, to protect taxpayers in conjunction with the FDIC guarantee of bank deposits

Legislation of Importance to IMBs

GSE Reform

On July 20, 2017, six small lender groups, including CHLA, testified before the Senate Banking Committee to present important small lender priorities in GSE reform legislation. These include:

- **No New GSE Guarantors.** The six small lender groups that testified were unanimously opposed to creation of new guarantors to compete with Fannie and Freddie. New guarantors could enable vertical integration and allow cherry-picking of high FICO score borrowers. The goal of competition can be accomplished among loan originators and risk sharing providers.
- **Full Small Lender Access**. A reformed system must maintain full small lender access to the Cash Window and preserve fully competitive securitization options to maximize competition.
- **Recapitalizing the GSEs Under a Utility Model**. The GSEs should be recapitalized so they can maintain their securitization role – with a Utility Model to avoid a repeat of pre-crisis excesses.
- **G Fee Parity, i.e. no volume discounts.** There was a consensus among hearing witnesses and support by many Committee members for continuation of the current policy that provides for equal G Fee pricing for all lenders.
- **Risk Sharing that protects taxpayers and small lenders**. Risk sharing should not be done in a way that hurts small lender access. CHLA is particularly concerned about up-front risk sharing.
- **Legislation should build on current system, and not be overly complicated or disruptive**. The housing market is critical to the economy, so reform should not be disruptive, but transitional.

Targeted CFPB Enforcement Exemption for Small IMBs [Williams Bill]

H.R.1964, the "Community Mortgage Lender Regulatory Act of 2017" (sponsored by Rep. Williams [R-TX]) would provide a targeted CFPB exemption for smaller IMBs. This bill would provide a parallel exemption to the one community banks now have – and is consistent with statements in the recent Treasury Department regulatory report about duplicative CFPB enforcement of non-banks. For qualified smaller IMBs, the CFPB could not conduct exams, carry out third party vendor audits, or take enforcement action (except with a referral from a state or other federal regulator).

Transitional Licensing

The President recently signed into law P.L 115-174, the "Economic Growth, Regulatory Relief, and Consumer Protection Act." While most of the bill's provisions provided regulatory relief for banks and other financial firms, there was one constructive provision for IMBs – the authorization of transitional licensing, both at the federal and state levels. Transitional licensing is needed because IMBs have significantly more stringent SAFE Act mortgage loan originator requirements than banks do (including a test, independent background checking and 20 hours of pre-licensing courses). Transitional licensing gives a registered bank loan originator the ability to start work at an IMB for a transitional period while the LO completes all these requirements. The bill authorizes similar transitional authority for LOs moving from one state to another.

Extension of Flood Insurance. On July 31st, the National Flood Insurance Program (NFIP) is scheduled to expire unless Congress re-authorizes and extends the program. It is critical that Congress act to extend the program by such date, without letting the program lapse.

CHLA 2018 POLICY AGENDA

The Community Home Lenders Association is the national voice for small and mid-sized IMBs - and the only national association that exclusively represents non-bank mortgage bankers. Following are key CHLA policy priorities to preserve IMBs and improve access to mortgage credit for consumers:

REGULATORY RELIEF FOR IMBs

IMBs are highly regulated - subject to: supervision and enforcement by every state in which they do business, supervision by the CFPB, and stringent SAFE requirements. CHLA supports more balanced IMB regulation:

- **Targeted Exam and Enforcement Exemptions for Smaller IMBs.** The CFPB should fully comply with its statutory requirement under Section 1024(b)(2) of Dodd-Frank to tier its regulation of non-banks based on firm size, volume, product risk, and degree of state supervision - by providing exemptions from exams and enforcement action for IMBs that originate fewer than 25,000 loans a year, unless the CFPB receives a referral from one of the IMB's state regulators.
- **Opportunity to Correct.** The CFPB should give smaller IMBs an opportunity to correct compliance problems before imposing fines or enforcement action (the way banks/credit unions are regulated).
- **Reliance on Improved CFPB Guidance.** The CFPB should: (1) end "Regulation by Enforcement," (2) provide more regulatory guidance, & (3) provide a safe harbor for IMBs complying in good faith.
- **SAFE Act Parity**. Mortgage loan originators that work for banks and CUs should be required to pass the SAFE Act test, <u>independent</u> background check in order to be registered to originate loans and should complete 8 hours of annual continuing education - as all IMB loan originators must do.

FEDERAL HOUSING ADMINISTRATION

Since the FHA Fund is strong and defaults are at record lows, FHA should stop overcharging borrowers, by:

- **Reducing annual premiums** on FHA loans - from 85 to 55 basis points.
- **Ending Life of Loan Premiums** - revert to pre-2013 policy, by terminating the charging of premiums when a loan pays down to 78% of value (as is required for PMI for non-FHA loans).
- **Raising permissible lender fee for loan assumptions** from $900 to $3,000.

FANNIE MAE AND FREDDIE MAC

Congressional action on comprehensive GSE reform is not needed to continue the strong progress FHFA has already made to date to reform the GSEs. FHFA should continue their progress, as follows:

- **Development of Recapitalization Plans.** FHFA should use its authority under the 2008 HERA legislation to direct Fannie and Freddie to develop recapitalization plans.
- **Completion of GSE Capital Requirements.** FHFA should expeditiously complete its recently announced rulemaking and promulgation of GSE capital requirements.
- **Increased Capital Buffer.** FHFA should continue to suspend the quarterly Profit Sweep, in order to increase the capital buffers of Fannie and Freddie above the current $3 billion.
- **G Fee/Risk Sharing Parity.** FHFA should continue its existing policies of prohibiting G Fee volume discounts and operating risk sharing in a manner that treats all lenders equally.

- **Access to Credit.** FHFA should not direct Fannie and Freddie to shrink their footprint, through stricter underwriting, higher G Fees, higher downpayments, or lower loan limits.